Joint Center for Housing Studies
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Financial Decision Making Processes of Low-Income Individuals

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Introduction

In *The End of Poverty*, Jeffrey Sachs describes the poor as "… ready to act, both individually and collectively … hard working … [and having] a very realistic idea about their conditions and how to improve them, not a mystical acceptance of their fate."[1] This description differs markedly from the stereotypical portrayal of low-income individuals as reluctant workers and irrational consumers. By judging various choices as irrational, observers who are not themselves poor invoke the traditional notion of rationality, which assumes that individuals make choices that maximize economic utility. Examples of perceived irrationality abound, particularly when it comes to basic financial decisions. For instance, some wonder why lower-income consumers choose to cash their paychecks for a fee when they could open a bank account instead and have the funds deposited electronically. Similarly, others question why immigrants would use a higher-priced money transfer service when a growing number of banks offer free or reduced-cost transfers via a bank account. This thinking reflects how difficult it is for a casual observer to understand the lives and circumstances of low-income individuals. Further confirming their diagnosis of "irrationality," these same observers often suggest financial education as the cure.

The field of behavioral economics has emerged as a response to the traditional view of rationality, focusing on choices that may not seem rational. Behavioral economists and psychologists have shown that people weighing options employ heuristics and are subject to a range of cognitive influences. Their insights can be useful in structuring financial products that encourage low-income individuals to make what society considers the optimal choice. Still, behavioral economics does not help us understand how financial services firms might design broader experiences that would be effective in reaching this customer segment.

Recent research in economics seeks to model seemingly "irrational" economic decisions in the context of self-imposed cultural norms. Economist Roland Fryer has developed a model to describe how individuals in a minority community may reduce investment in high-return human interaction outside of the cultural group in favor of in-group interactions because of the potential loss of status in the minority community.[2] This behavior, which Fryer links to the phenomenon

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[1] Sachs (2005, p. 317)
[2] Fryer (2006)

of social sanctions for ‘acting white’, can help to explain how context may drive decisions that appear irrational in objective economic terms.

Acknowledging the importance of context, we turn to anthropology for further insights into the financial decision-making processes of low-income individuals. Anthropological views of culture and cognition are helping to reveal how cultural, social, and experiential factors influence the decisions of consumers with shared experiences. This field emphasizes in-depth examination of social context and its influence on behavior, and relies heavily on ethnographic research techniques. To anthropologists, rationality is the ability to make decisions that are logical within a given context.

While mindful of theory, this paper is grounded in the results of proprietary market research conducted on behalf of two different U.S financial services firms—a large bank with a multistate footprint and a midsized credit union serving a regional market—to help them better reach and serve lower-income consumers. Both research efforts sought to identify the key drivers of decision making among lower-income consumers, and then to test a series of product, marketing, branch delivery, and customer service concepts developed in response to those drivers. The research involved both qualitative and quantitative methods.

Both projects focused mostly on households earning less than $50,000 a year. The qualitative, ethnographic work was conducted in a predominantly African American community, although the resulting concepts were tested in broad surveys that included consumers of varying ethnicities. Prospective customers were recruited to help design the concepts to be tested. While we are confident in the validity of our findings, it is important to note that they reflect our sponsors’ areas of interest and are intended to be illustrative rather than comprehensive.

After a review of the literature and discussion of the construct of reasoning systems, we describe the ethnographic study undertaken to infer the reasoning of low-income consumers. Then we show how understanding this reasoning system can help financial institutions design products and services to meet market needs and desires. We conclude by discussing the broader implications of a reasoning systems approach.

Literature Review

In the past several decades, anthropology has proved increasingly useful to students of consumer behavior in complex industrialized societies. While consumer decisions in modern economies are often considered the province of economics or psychology, these disciplines, with their emphasis on understanding individual actions, are not particularly good at illuminating how culture affects consumer decision making. In response, researchers have turned to the ethnographic tools developed in anthropology to provide rich detail about individual motivations, preferences, and strategies that are difficult to observe in laboratory settings. While anthropology does not lay claim to the universal conclusions of psychology or economics, it can provide us with insights into the salient cognitive drivers among groups with shared experiences.

Within the broad discipline of anthropology, cultural anthropology seeks to "describe the standards and principles by which people perceive their world, by which they define their objectives in relation to it, and by which they select from the material, intellectual, and social resources available to them in order to accomplish their objectives."[3] Two strands in cultural anthropology are most relevant to the current analysis: symbolic anthropology and cognitive anthropology.

Symbolic anthropology is concerned with culture as the shared understandings and beliefs of individuals. Culture is mediated through symbols which individuals assign meaning to and interpret in order to arrive at actions and thoughts that are "sensible" in terms of their system of understanding. At a deeper level, they represent the embedded norms that unconsciously shape our actions and beliefs, what Geertz describes as common sense: "Common sense is not what the mind … spontaneously apprehends; it is what the mind filled with presuppositions … concludes."[4]

Symbolic anthropology and its methodological tools have found wide application in the behavior of modern consumers in industrialized countries.[5] The body of research Arnold and Thompson describe as consumer culture theory seeks to illuminate "the symbolic, embodied, and experiential aspects of acquisition behaviors and the socio-cultural complexities of exchange behaviors and relationships."[6] This research concerns itself with an array of phenomena, including the overlapping cultural, socio-historical, and institutional factors that influence consumption behaviors and the ways in which consumers use products to define and express themselves.

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[3] Goodenough (1969, p. 329)
[4] Geertz (2000, p. 84)
[5] Goulding (1999)
[6] Arnould and Thompson (2005, p. 871)

Similarly, cognitive anthropology focuses on the part of culture that "consists of the shared aspects of the structure of cognitive representations held by the individual members of that culture."[7] Cognitive anthropology considers the "interdependence of cognition, emotion, and motivation" in the production of these representations and how they guide decision-making.[8] One concept anthropologists have developed to understand this interdependence is the 'schema,' a "set of rules or strategies for imposing order on experience."[9] This framework allows anthropologists to follow individuals' cognitive processes as a rational process without focusing on whether decisions are correct according to outside normative criteria.

In recent years, researchers have considered what cognitive anthropology can tell us about how consumers make decisions in the marketplace. Tadajewski and Wagner-Tsukamoto argue that contextual approaches are especially useful for understanding different facets of consumer experience. Contextual knowledge, they argue, guides both the set of choices facing individuals in the marketplace and the resources they choose to access.[10]

Rather than a substitute for psychological and economic decision models, these anthropological perspectives complement them. Anthropological tools can provide unique insights into the context in which low-income consumers make financial decisions and can allow us to deduce the "rationality" of their actions.

Analysis

Inferring the Reasoning System of Low-Income Consumers of Financial Services

The term "reasoning system," which we use extensively, refers to the interconnected core beliefs that guide individuals, sometimes unconsciously, in making decisions. It is adapted from the concept of "cultural common sense" advocated by Geertz and also recalls the concept of a "schema" discussed by Rice. Keeping with the various anthropological perspectives, we see rationality as the process of making decisions that are sensible, or logical, within a given reasoning system.

This "common sense" reflects social and physical realities and has shared meaning within the culture. Underlying it are deeply rooted and highly persistent perceptions, beliefs, and

[7] Romney & Moore (1998)
[8] Garro (1998, p. 324)
[9] Rice (1980, p. 153)
[10] Tadajewski and Wagner-Tsukamoto (2006)

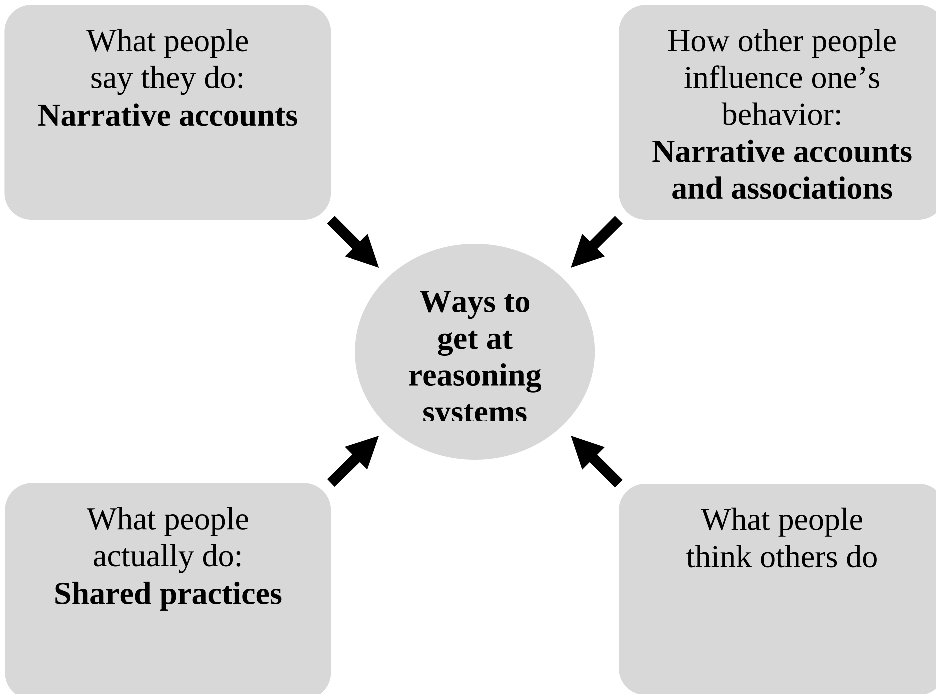
attitudes shaped by circumstances and experiences that govern decision making. Underlying beliefs are tacit, accessed intuitively by members of the group, and rarely understood beyond group boundaries. Because it is often hard for people to articulate their fundamental beliefs in reply to a direct question, we used ethnographic inquiries to infer the reasoning system that governs financial decision making of low-income individuals.

Working with a team of ethnographers, we systematically observed people in relevant circumstances and conducted in-depth interviews to understand their everyday lives and everyday influences on their financial decision making. We interacted with 27 people, all residents of an LMI neighborhood. Twenty were users of non-bank check-cashing services, and seven were new customers of the bank-based check-cashing program. Interviews ranged from a single, one-hour discussion to multiple discussions that took a few hours. We recruited people through bank personnel, through intercepts at check-cashing locations and through the social networks of people we interviewed. Interviews took place in homes, libraries, and shopping malls—all at the interviewees' suggestion. Ethnographic techniques revealed a broad range of shared beliefs. Both observation and interviewing helped us understand different perspectives on financial issues and ultimately infer a shared reasoning system.

We observed and discussed:

1. What people say they do
2. What people actually do
3. What people think or believe other people do
4. How people's behavior is influenced by others

Figure 1: Reasoning System Development Framework



Using the framework pictured above, we gathered extensive qualitative data reflecting a broad range of collective experiences, common emotional needs, and shared responses to prevailing circumstances. We organized these data and the corresponding insights according to our interpretation of the reasoning system construct. We looked at shared experiences and prevailing circumstances as the context that creates the foundation of the reasoning system. We then represented the inferred reasoning system as an intersection of common emotional needs and the response patterns that emerged over time. The context we describe below helped us see the "internal logic" that low-income consumers use in making financial decisions.

Our analysis suggests that the context of shared experiences shapes the reasoning system of low-income individuals in profound ways.

Poverty leads to short-term focus. We observed poverty to be accompanied by constantly changing and frequently unpredictable circumstances. Incomes fluctuate, permanent assets are few, jobs change, work availability often changes, family structures change, money comes and goes. Within this context, it is not surprising that short-term focus prevails. Long-term thinking anchored in the need for achievement does occur, but it requires deliberate effort.

People live paycheck to paycheck, confronting job insecurity and housing instability. Having cash in hand is comforting. Convenience is bought at a premium. Investing in long-term financial actions is difficult, even when their value is understood and desired.

A history of exclusion leads to mistrust. Trust emerged as central issue in low-income people’s lives. Decades of exclusion from the mainstream, by either ethnicity or class, engendered deep distrust of mainstream practices. This attitude was generalized to all large institutions, which are predominantly mainstream, and to government agencies. It is hardly surprising that within this context, trust is fragile and self-protection is crucial. Consumers strongly emphasize intangibles such as respect, trust, safety, security, and a sense of belonging. Subtle manifestations of disrespect, frequently unintended, are perceived as messages of exclusion—an attitude that mainstream organizations in turn often see as overreaction to simple procedural matters. When people believe an institution is breaking an agreement with them—as is the case with “hidden fees” or an inadvertently overdrawn account—they feel a promise has been broken. Their trust is compromised and they may bail out of the system.

Community and family networks facilitate access to resources. Social networks play a crucial role in the lives of people of moderate means. The role of such networks in everyday life goes well beyond the emotional support they provide across all economic strata. Low-income households rely on community and family networks for survival. Close personal connections and strong trust within an expanded network provide flexible access to resources, including financial resources. In this world, people take care of each other and regularly exchange favors.

Prevailing financial practices present an overwhelming range of options. Broadly speaking, people meet their financial services needs by tapping into one of two worlds. One is the informal cash economy that is familiar and comfortable and is an integral part of the community. Social networks include check cashers and fringe lenders. People are acutely aware of the relatively high fees and the stigma they evoke, yet they are willing to pay the price to avoid possible rejection and disrespectful treatment. The other is the formal financial services system. It is a different world, one that conjures an image of stability and upward mobility and therefore presents a positive aspiration. Yet there is an emotional price to pay here—many are confused by practices they don’t understand, and others feel rejected. Some try to penetrate that world; some of those give up following negative experiences; others give up without trying. Some function in both worlds simultaneously.

The qualitative data revealed that shared emotional needs form a crucial dimension of the financial reasoning system of low-income individuals. Over and over, people we interviewed about their financial decisions stressed their need for belonging, respect, trust, and achievement.

Belonging. The feeling of belonging is deeply rooted in the collective mindset of low-income consumers and determines their level of comfort in any situation. As it relates to financial services, many low-income people believe that banks are not for them but for "people with money." The banking practice of "selling up" when the customer has barely enough money to get by, or offering products that clearly do not fit the customer's needs, contributes to the sense of alienation from the formal financial system—the feeling that "banks are not for me … they make me feel poor."

Respect. The primacy of respect in the emotional lives of low-income people came across as interviewees gave many examples of being disrespected, with always showing visible annoyance. They spoke of bank personnel "rolling the eyes when I ask a question" and of waiting in line longer than "real customers" did. From responses to indirect questions, we learned that "caring" is the basis for respect within the social network. The formal financial system is often perceived as not caring, which feels disrespectful.

Trust. Within the community, trust is robust; within formal financial institutions, it is tenuous. As one interviewee commented, "They don't have your back." Social capital theory elucidates this dichotomy, distinguishing between two types of trust: within-group trust and generalized trust. Within-group trust is that within immediate networks such as family and friends. In these narrow networks, social capital lowers transaction costs between agents and increases the strength of repeated interactions.[11] In Putnam's formulation, this is 'bonding' social capital. While good for strengthening specific reciprocal relationships, it may have negative effects on overall economic prosperity: social capital theory predicts it will correlate negatively with generalized trust, i.e., the capacity and willingness to trust those outside the immediate network.[12] Generalized trust is associated with 'bridging' social capital. Individuals who possess high levels of generalized trust are more likely to have faith in those unlike them, and optimism about the reliability of these agents, key elements for successful interactions between low-income individuals and financial services providers who are perceived as outsiders. Higher levels

[11] Fedderke (1999)
[12] Putnam (2000)

of generalized trust have been associated with more highly developed financial markets, including a propensity to use checks, seek formal lending, and invest in the stock market.[13]

Achievement. The universal need to achieve was apparent as people verbalized their financial aspirations. They want to use checks and have savings; they want to understand credit; they want to buy a home and take care of their children's future. They were very proud of attaining a course certificate.

Further analysis of the data showed that the reasoning system of low-income individuals reveal common response patterns. These patterns emerged over time to address emotional and practical needs. The major response patterns we encountered are:

Resource sharing. Low-income communities frequently pool resources in order to maximize them. Anchored in strong social networks and the collective mindset of low-income individuals, this practice is at the core of collective assets and casual lending with relaxed reciprocity. Buying a house or a car for an extended family member is common. Borrowing money from friends and family is common. One's word is trusted. There are few formal contracts. People will pay back borrowed money when they can. The network will continue to lend even before it is paid back.

Deliberate navigation. The need for explicit attention to navigation and the requirements for navigation aids are typical among those who feel overwhelmed by the complexities of everyday living. To optimize financial decisions, one must be able to maneuver through formal and informal entities and compare competing offers within and across providers. The rampant confusion among underbanked consumers about mainstream institutions and their products and policies leads to feelings of not belonging. Identification requirements are interpreted as discrimination; overdraft fees are perceived as betrayal. We heard prospective customers say, "Banks are not for me," "Banks discriminate," and "Banks make me feel poor." They appreciate help in navigating the complexities of both systems. When they feel this way, they may prefer a simple and familiar solution, even if it costs more.

Loyalty. Low-income communities show a deep sense of loyalty that arises from the belief that there is a community-based safety net where exchanges are not explicitly tracked. They trust that over the long run things will even out; at the end "things will work out." Thus,

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[13] Guiso et al. (2004, p. 527)

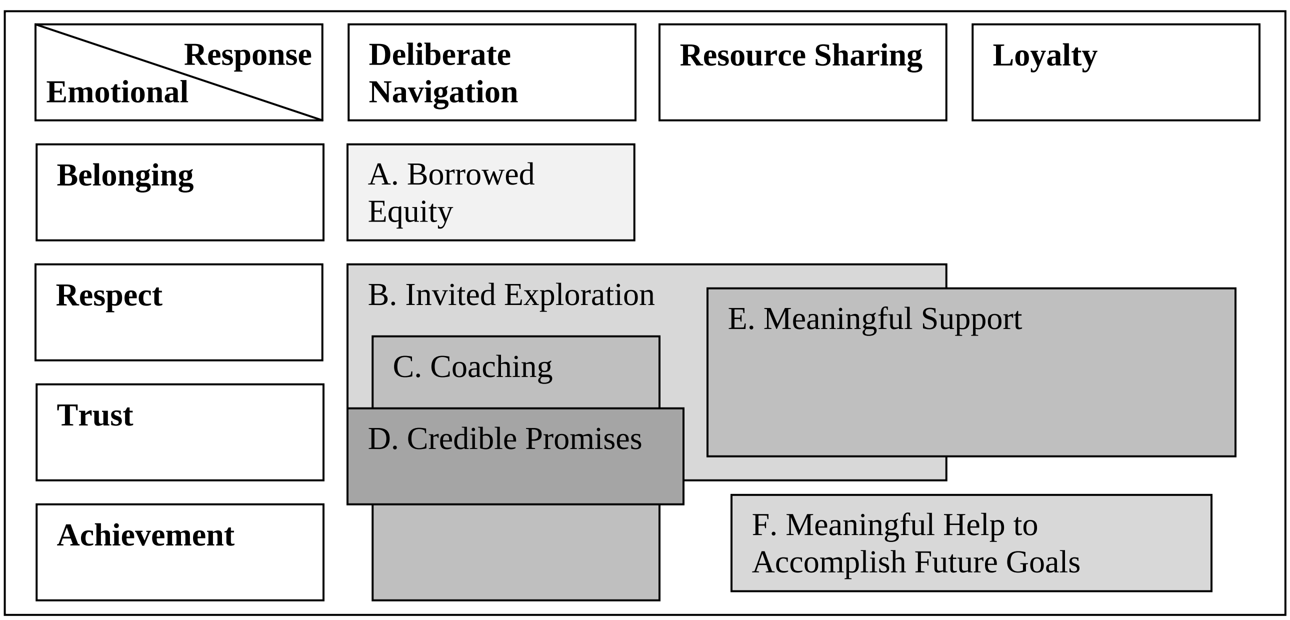
long-term relationships tend to be more loyal. Longevity may be tracked over multiple generations. The partners in a long-term relationship expect preferential treatment, bordering on entitlement. It is this aspect of reasoning that helps explain why a frustrated consumer, upon being rejected for a loan, might exclaim, “But my grandfather banked with you!”

Service concepts that emerge from the inferred reasoning system

One critical challenge of serving the financial needs of low-income consumers is to develop a customer experience that is relevant, culturally sensitive, and consistent with their values and beliefs. To that end, we used the reasoning system to define relevant service concepts. The table below depicts the emotional needs and the response patterns identified in the ethnographic research and the service concepts derived from that framework.

The service concepts shown below are examples and illustrations rather than an exhaustive list. They demonstrate how financial services firms can acknowledge the emotions and typical responses of lower-income consumers to reach and serve them.

Figure 2: The Inferred Reasoning System with Illustrative Service Concepts



The service concepts derived from the inferred reasoning system include the following:

Borrowed Equity (A). Anchored in the Belonging-Navigation space. Refers to the use of credible agents from within the social network to help with and encourage exploration and to create receptivity. Examples include referrals from satisfied clients to friends and family, or use of credible/familiar locations to increase receptivity. Challenges include gaining cooperation from agents without damaging their credibility in the social network.

Invited Exploration (B). Mostly anchored in the Respect and Trust spaces, while incorporating Navigation and Resource Sharing elements. Achieved through encouraging and enabling exploration in a culturally appropriate manner. Examples include issuing personal invitations (respect), providing transportation (resource sharing), including friends and family (small groups for cultural support), using “touch and feel” experiences to increase familiarity and sense of control (navigation), and building trust by staying true to the stated intent (i.e., exploration, not sales). Additional navigation elements include explaining operations and addressing safety and concerns.

Coaching (C). Firmly anchored in Navigation and spanning Respect, Trust, and Achievement needs. The self-respect that comes from the sense of “mastery” creates a positive mindset that, in turn, enables Trust to develop. Clear, direct, and consistent communications are crucial. Mastery of a situation (immediate or longer term) is equally crucial. Sincere appreciation of customers and their business is key.

Credible Promise (D). Resides in the Navigation-Trust intersection. It has to do with clear and simple requirements, clearly spelled out “rules of the game,” simple, direct, and familiar terms. No assumptions should be made; everything should be explicit. A perceived break of trust is a danger; it usually results from different assumptions that have led to different interpretations of a situation. Example: overdraft at an ATM. Client assumption: “The bank will tell me if I have money to withdraw.” Bank assumption: “The client wants credit and will pay for it.” Client interpretation of resulting fee: “Banks are sneaky and should not be trusted.” Bank interpretation: “Client is irresponsible.”

Meaningful Support in the Immediate and Medium Term (E). Meaningful help is perceived as a sign of respect. Practical help is needed and appreciated as a form of resource sharing. Examples include providing transportation and supporting school-related activities, sports, and family gatherings. Help must be given in a courteous, culturally appropriate manner. There is an interesting conceptual progression from Resource Sharing (i.e., “because you have resources”) to Loyalty (“because I stuck with you”); both spaces are relevant.

Assistance with Financial Issues Promoting Longer-Term Goals (F). This appeals to the Achievement need and builds on a future orientation. Help can come in various forms and intensities, from providing help with credit-score issues to credit repair to building assets. This concept, too, may cover anything from Resource Sharing ("because you can") to Loyalty ("because I earned it").

Translating concepts into tactics

To bring this work to life, we translated the reasoning system and the emerging service concepts into tactics. For the bank, we engaged with bank employees, customers, and people from the community in discussions to determine possible practical applications linked to the building blocks of the reasoning system. The discussion resulted in a list of 43 customer experience statements. The employee and community discussions also yielded a few pricing and convenience statements that did not emerge from the conceptual construct, and we included them in the research because of their importance in financial decision making. This list is by no means comprehensive; it is just one possible manifestation of the underlying service concepts.

The validity and importance of the various statements was then tested through a survey of 760 respondents whose household income was under $50,000 and who cashed at least one check at a place other than a bank or credit union in the six months before the survey date. Participants were asked to indicate the importance of these experiences to them (on a 7-point scale, with 4 being neutral) in the context of choosing a place to cash checks. The table below lists the survey statements, ranked by the mean importance score. The percentage change from neutral is also shown. Our client used these data in combination with other findings to inform branch practices and operating procedures.

In a subsequent analysis of the data, we assigned a description of the underlying need each statement addresses. Ethnographic practice, with its emphasis on context, enabled deeper understanding of emotional needs. For example, we interpreted multiple locations and proximity to home as signs of respect. This interpretation was based on interviewees' emotionally charged comments such as "Real customers can go to any branch they want, but I can use only some branches," or "My neighbors can use the branch next to home, but we need to go far away." In contrast, interviewees referred to availability of additional services as pure convenience.

Table 1: Importance of Experience Elements

	How important to you is it that:	Underlying need	Mean Importance	% change from neutral
1	My information is kept confidential	Trust	6.36	58.9
2	Respect is shown in every employee interaction	Respect	6.33	58.2
3	The location feels safe	Belonging	6.24	56.1
4	Customer service is hassle-free	Respect	6.22	55.5
5	Services are delivered quickly	Respect	6.2	54.9
6	Employee interactions are warm and friendly	Respect	6.16	54.1
7	I do not need to worry about rejection	Belonging	6.15	53.8
8	Employee interactions feel comfortable	Belonging	6.13	53.3
9	I trust the check casher	Trust	6.1	52.4
10	There are many locations	Respect	6.06	51.6
11	There are clearly stated terms	Navigation	6.06	51.6
12	Employees make every effort to satisfy me	Respect	6.04	51
13	I understand what is expected	Navigation	6.03	50.8
14	Check services have competitive rates	Pricing	6.02	50.6
15	Locations are open a lot of hours	Respect	6.02	50.4
16	Locations are close to home	Respect	5.97	49.1
17	I don't need to wait too long	Respect	5.93	48.2
18	Provider follows up after a problem	Navigation	5.82	45.5
19	Account set-up is fast	Respect	5.82	45.5
20	Provider has good reputation	Belonging	5.82	45.4
21	In the physical space signs are clear	Navigation	5.77	44.3
22	Help with financial issues	Navigation	5.77	44.2
23	Maximum amount charged on check services	Pricing	5.74	43.5
24	Never disappoint me	Trust	5.72	43.1
25	Parking	Convenience	5.62	40.5
26	Trust brand name	Trust	5.61	40.2
27	Offer bill payment service	Convenience	5.54	38.6
28	Location close to work	Convenience	5.47	36.7
29	Not have one time set-up fee	Pricing	5.46	36.4
30	Apologize if long waiting time	Respect	5.41	35.2
31	Offer money orders	Convenience	5.39	34.7
32	Have a loyalty program	Loyalty	5.37	34.3
33	Offer option to put cash on a card	Convenience	5.18	29.5
34	Loyal get special treatment	Respect	4.98	24.5
35	Can buy stamps and bus pass; send faxes	Convenience	4.98	24.4
36	Can get on website	Navigation	4.97	24.3
37	Furnishings are nice	Respect	4.94	23.6
38	Offer wire transfer service	Convenience	4.91	22.7
39	Provide educational brochures	Resource	4.78	19.6

	How important to you is it that:	Underlying need	Mean Importance	% change from neutral
		sharing		
40	Employees willing to bend the rules	Respect	4.77	19.3
41	Employees know me	Respect	4.75	18.7
42	Offer educational classes	Resource sharing	4.58	14.5
43	Offer payday loans	Convenience	4.32	8

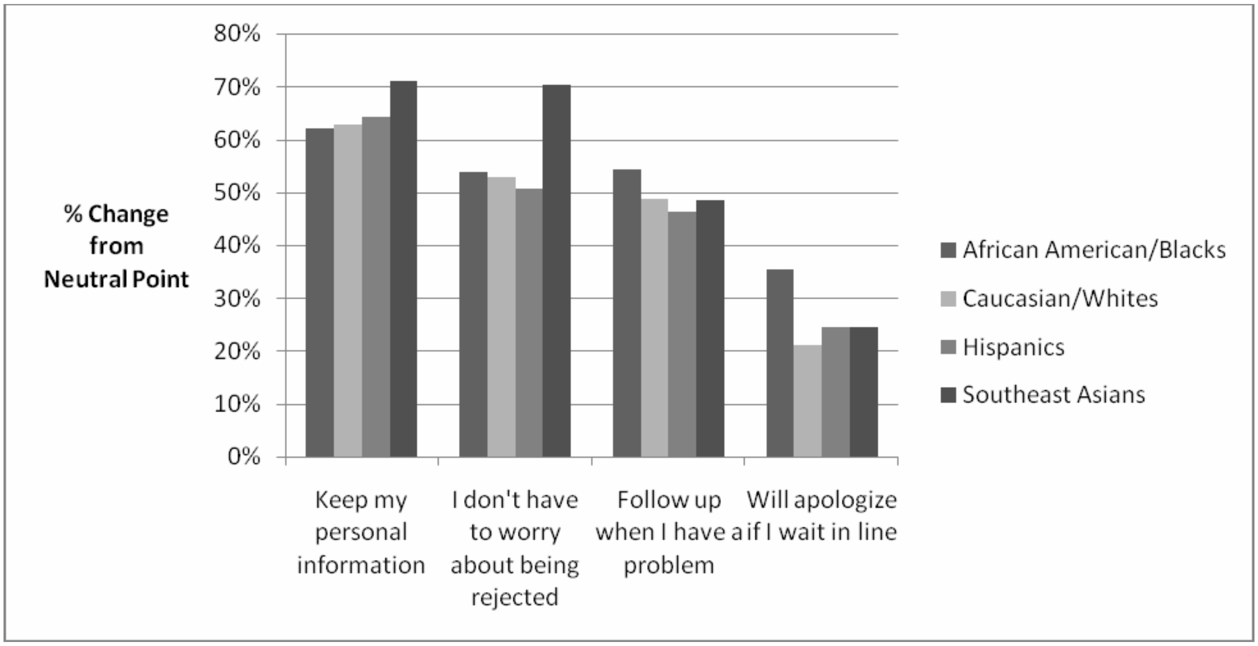
A few findings emerge from the results:

- All tactics were rated above neutral, which suggests that the reasoning system construct can be useful for deriving customer experience tactics.
- Tactics that addressed emotional needs, particularly respect and belonging, ranked higher in importance than those addressing practical needs.
- With the exception of check-cashing rates (which ranked 14 out of 43), all other tactics related to pricing and convenience—most of which did *not* emerge directly from the reasoning system construct—ranked in the bottom half.

In a second study, this time in partnership with a credit union, we confirmed the relevance of elements from the reasoning system through interviews and small group discussions. We then exposed a set of experience statements related to respect and navigation to quantitative validation across four ethnic groups. This was part of a web-enabled survey of 295 respondents, mostly with household income of $50,000 or less. All respondents were un- or underbanked (i.e., they used non-bank providers for financial services either exclusively or in addition to a bank relationship) and represented four ethnicities. The results were re-weighted to reflect the income and ethnicity characteristics of the target population. We found both respect and navigation to be of utmost importance across the four ethnic groups, further emphasizing their centrality in the reasoning system of low-income consumers.

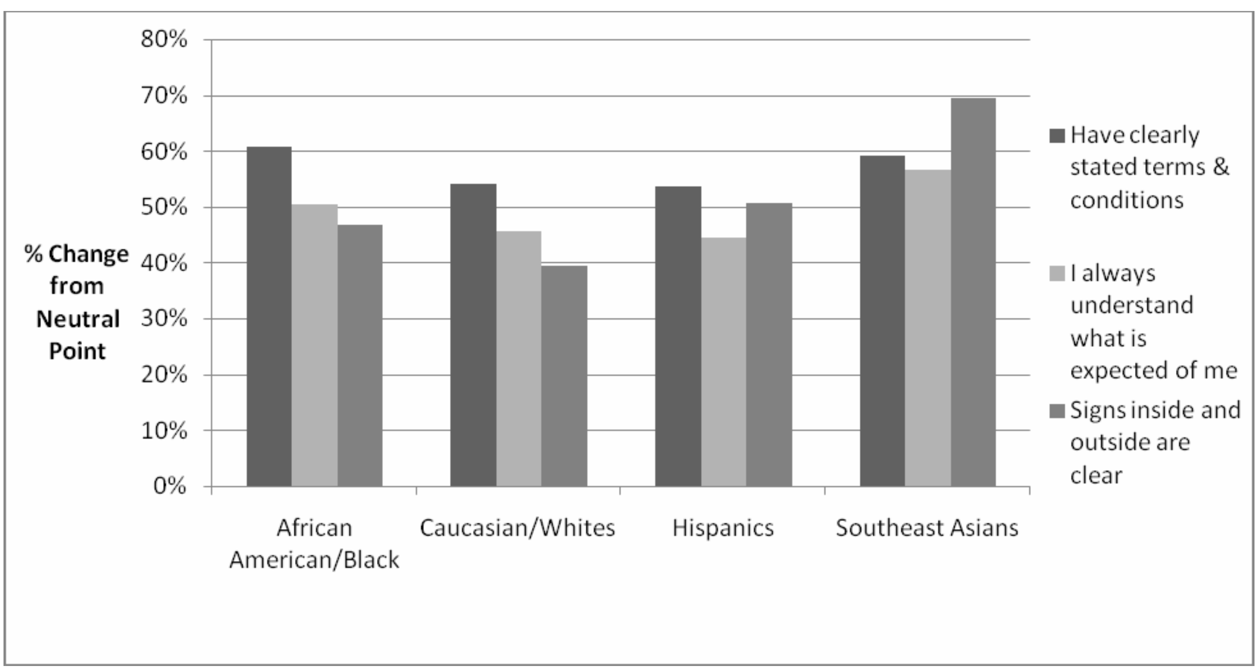
The chart below demonstrates this finding as it relates to respect. We tested a series of respect-related tactics to determine their appeal to individuals of different ethnic groups. We found that individuals assigned a high degree of importance to the respect-related tactics consistently across ethnicities. It is interesting to note that the Asian group was even more sensitized to respect-related tactics than the other groups.

Figure 3: Respect Tactics



Similarly, the chart below shows that help with navigation is crucial for all the ethnicities we studied. As with the previous chart, the high importance assigned to navigation-related tactics held consistent across ethnicities, with the Asian group assigning it the highest scores.

Figure 4: Navigation Tactics



Implications

Discussions about "banking the unbanked" tend to focus on the same few solutions. Reducing or eliminating fees is usually at the top of the list, followed by the need for more bank branches in lower-income communities and financial education. In other words, solutions tend to focus first on price and convenience, and then on strategies to provide consumers with better information so they will make the "right" decision.

The results of the research presented here demonstrate something far broader is at work. The emotional core of the reasoning system and the response patterns that developed in tandem drive decision making that may be economically less than optimal, or "irrational," but makes perfect sense within the shared belief system. The reasoning system described in this paper suggests ways to reach people of modest means on their terms, thus serving them more effectively. We believe this reasoning system is a rich source of strategies and tactics for financial institutions and policy makers alike.

Business implications

Financial services providers aspiring to reach and serve people of modest means need to be mindful of the implicit messages embedded in the various elements of the customer experience—from the way products are designed, to the way branches operate, to the style of front-line staff as they interact with consumers. Low-income consumers may read disrespect into situations where none was intended, from the location of a branch to the speed of one teller line versus another. Similarly, while financial institutions often seek to project an air of seriousness and stability to signal that they are safe places to keep money, low-income individuals may see that atmosphere as a sign that they don't belong at the bank.

Belonging and respect can be communicated in subtle yet powerful ways. A no-minimum-balance requirement, for example, sends a message of belonging and of open doors. Evening and weekend operating hours convey respect for customers' schedules. Front line staff who believe low-income customers can be profitable customers will unconsciously communicate these beliefs through tone of voice and other nonverbal cues. Clear and open communication that explicitly describes adverse consequences of consumer actions will build trust if used consistently over time. Another important insight is that people, not brands, are the major differentiator in low-income consumers' eyes. The relationship with a teller or other bank personnel is a more significant factor in creating loyalty to a bank because it helps establish trust and a sense of belonging. An anthropological approach suggests banks need to think differently about how they staff, train, and script branch personnel, customizing the tenor of the interactions to better nurture budding customer relationships.

To ensure effective interaction with people of modest means, the response patterns discussed in this paper should be acknowledged and incorporated into the customer experience. While financial services providers may intuitively understand the emotional needs of belonging, respect, and trust, the concepts of resource sharing and navigation, and the particular meaning of loyalty are much less understood, and their importance is therefore underestimated. Resource sharing can be acknowledged through offers of “family accounts”—accounts where members of an extended family can save together, run a transaction account together, and qualify for credit based on their combined debt capacity. Longevity of relationships should be acknowledged and rewarded since it is the basis for loyalty among low-income consumers. There may be an opportunity to extend the meaning of “longevity” to include repeat transactions, although this definition of loyalty may not be intuitive to this customer segment and should therefore be explicitly described.

The need for good navigation tools goes well beyond formal disclosures. Easy-to-understand information about how a product works and how it can be useful are important; clear warnings about negative consequences of customers’ actions are crucial. Banks are well situated to provide the kind of coaching and navigational help that consumers need. Banks sometimes feel uncomfortable providing financial education directly to consumers, for fear that consumers will perceive them to be biased toward selling rather than imparting objective information. Coaching, however, suggests a different kind of relationship between banker and consumer, one that harkens back to an earlier era when consumers routinely sought guidance from bankers. Although we can’t turn back the clock, we can find ways to communicate important information to consumers more simply and clearly and at more points in the lifecycle of each product.

The short-term focus of lower-income consumers and their reliance on social networks also suggest important implications. Short-term focus should be respectfully acknowledged as an outcome of people’s very hectic and volatile lives. Structuring rewards to be earned over relatively short periods is a practice that should be relatively easy to implement. A more difficult practice that could be very powerful is structuring a loan product to allow frequent small payments instead of the all-or-nothing monthly payment that is expected with most loans. The success of "friends and family" promotions in reaching this customer base underscores the importance of following social networks. Retailers use this practice extensively to increase consumers' comfort and sense of belonging, but it's underutilized by financial services providers.

Policy guidance

Government initiatives have tended to focus on account design, or on incentives to encourage financial institutions increase lending to low-income borrowers or to maintain bank branches in economically distressed neighborhoods. While these initiatives may address some drivers, such as price and access, they don't speak to the emotions that drive behavior. To succeed in serving people of modest means both sets of drivers should be addressed. Opening a new bank branch in a low-income community may be of value, for instance, but not if customers are uncomfortable interacting with the bank.

It is impossible to mandate positive customer interactions that are grounded in the various elements of the reasoning system, yet it is feasible to track and evaluate the outcomes of such interactions. The service test in the Community Reinvestment Act (CRA) is a natural mechanism for encouraging such outcomes. Rather than judging service by the level of effort, such as number of branches or hours of financial education or specific product design, service should be judged by outcomes, such as the extent to which mainstream products are used by previously unbanked consumers.

Financial literacy is a national priority. This research suggests that the financial lives of low-income consumers are driven by what makes sense within their reasoning system, even if it has adverse financial impact on them in the long run. Classroom-based financial education that typically feels paternalistic and a curriculum that requires a long-term orientation may not be the best way to provide consumers with the tools they need to maximize economic benefits. We suggest shifting the funding focus from "education" to programs promoting guidance and coaching. Consumers need guidance in navigating the increasingly complex world of financial services choices. They need a coach who will help identify opportunities for positive financial outcomes and caution against financial pitfalls.

Finally, our findings confirm the need for strong consumer protection laws. Predatory financial services providers have been quite successful in understanding the emotional drivers of low-income consumers and manipulating them for financial gain. Financial education and public awareness campaigns aren't a substitute for a regulatory framework that protects consumers while promoting innovation.

Conclusion

As research for this paper shows, "rationality" is a complicated construct. What is rational depends on context and culture. We believe it is important for financial institutions and policy makers to consider the context of shared experiences in which low-income people operate, and acknowledge the influence of such experiences on the way people make decisions. When developing programs to support low-income consumers, it is helpful to realize that short-term focus and mistrust of financial institutions are deeply rooted in poverty and in a history of exclusion. Such elements should therefore be respectfully acknowledged, rather than fought, within the program structure It is equally helpful to realize that emotional drivers of behavior such as trust, respect and a feeling of belonging are likely to be as strong as, or stronger than economic drivers among lower-income communities. While decisions individuals make in this context may not seem rational from a strictly economic perspective, they may make perfect sense in terms of one's comfort level and willingness to engage with the financial institution.

The framework presented in this paper gives financial services firms a foundation for creating innovative tactics to reach lower-income consumers. What isn't clear is just how pervasive the findings are among different sub-segments. The research described in this paper looked across ethnic groups, but not across income or other strata. For instance, is the duration of poverty important, such that families entrenched in poverty are more likely to subscribe to the reasoning system described here than others? Do elements of the reasoning system persist when people move out of poverty? Further exploration and testing may reveal additional insights, and uncover other tactical applications.

The framework we discussed may give readers a reason to wonder whether "banking the unbanked" in ways that resonate with consumers is even possible. Is there a way to maximize economic benefits within a reasoning system so heavily influenced by strong emotional needs and unique coping patterns? We believe it is possible, although not easy. It requires acute sensitivity to all elements of the reasoning system and clever use of enabling practices, such as social networks and financial coaches, to bridge the two worlds.

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