Center for Social Development

GEORGE WARREN BROWN SCHOOL OF SOCIAL WORK

| APRIL 2015 | CSD PERSPECTIVE 15-28 |

How Do Norms Inform Our Approach to Financial Empowerment?

By Camille M. Busette

Thanks, Michael, for the very warm introduction, and thanks to Washington University's Center for Social Development for sponsoring such a rewarding conference.

Good evening everyone. It has been such a pleasure to be able to attend this conference and to appreciate all the rich research presented today. I'm very impressed.

I am absolutely delighted to be here for a number of reasons: First, it is very humbling to be here in the presence of the icon of asset-building research and policy advocacy, Professor Michael Sherraden. And second, it's always refreshing to be in the company of a community that shares a commitment to broadening the national and international dialogue about responsible pathways to economic upward mobility.

I know most of you are connected with the field of social work as practitioners, educators, or researchers. I know I won't be saying anything new in highlighting the critical function that financial stability and the ability to manage household finances play in economic success, particularly in intergenerational upward mobility.

What I want to highlight today is the special role that educators, practitioners, and researchers—in social work and related disciplines—can play in improving the economic lives of poor families.

But let me start with an observation that may seem noncontroversial.

In the United States, and frequently in emerging markets around the globe, being in a position to leverage financial assets is one of the keys to household economic success. If done responsibly, building a larger financial base from a smaller one, selectively using credit and secured assets, and exploiting opportunities to buy low and sell higher are all fundamentals of wealth creation.

Yet, the Corporation for Enterprise Development (CFED) reports that fully 44% of American households do not have 3 months' worth of savings to fall back upon if they have an emergency. This percentage is 61% among households of color, a demographically growing population. The same research also reports that 56% of Americans have subprime credit scores (Brooks, Wiedrich, Sims, & Medina, 2014). What do these statistics mean? They mean that over 100 million Americans are not in a position to build assets. For a country as wealthy as this one, that fact is sobering and, frankly, appalling.

Internationally, that number is in the billions. The World Bank estimates that roughly 2 billion people worldwide are excluded from partaking in financial activities that could contribute to their economic upward mobility (Demirguc-Kunt, Klapper, Singer, & Van Oudheusden, 2015).

So, what can be done about this?

This is where we come in. Those who work in disciplines such as social work, disciplines that draw upon multiple academic domains and on-the-ground experience, are critical to broadening thinking about poor people and their financial decision making.

In addition to the excellent policy, research, and programmatic work being done to improve

This Perspective has been adapted from an address given before the 2015 Convening on Financial Capability and Asset Building: Advancing Education, Research, and Practice in Social Work, April 16, 2015.

the economic opportunities for marginalized households, there are some specific endeavors that, in my view, would act as accelerants to financial-inclusion and financial-capability efforts.

Financial capability and financial inclusion are about improving the financial lives of poor households. A common point of departure for this work is to establish a reference standard and then to try to develop strategies, tactics, and programs that could help poor households achieve this standard.

Let me give you an example.

One of the concerns within the world of financial inclusion and financial empowerment is that billions of people are outside of the formal financial system; we share this concern in the United States. The understanding behind this concern is that poor households will only have opportunities to build wealth if they participate in the formal financial system.

We want poor households to have access to formal, responsible financial products and services in part because of the wealth-building opportunities but also because of our concerns about consumer-protection issues. Our implicit standard here is a set of products and services that addresses consumers' financial needs and does so in a safe, regulated, well-informed environment. So far so good; all of this is sensible.

That chain of reasoning gets interesting when the standard is broadened to articulate normative financial behaviors and attitudes. For instance, informal arrangements for managing money are common in immigrant communities and abroad but are considered inferior to formal financial arrangements. Aren't there greater consumer protections and greater opportunities to earn interest in a formal savings account than in an informal lending circle? The answer is yes, probably. So, shouldn't those of us working in financial inclusion and financial capability be trying to get households to substitute the savings account for the lending circle?

Tremendous research, practical, and policy opportunities are tied to this question.

When we say that households should substitute the savings account for the lending circle, we are introducing, however implicitly, a discussion of behavioral norms. The normative assumption is that people would make the rational decision to move their money into savings accounts if they knew that savings accounts are safer and more lucrative than lending circles.

In other words, we assume that rational people act on the *economic facts* and make the appropriate decisions.

So in that view, we have defined rational financial behavior to mean that people should value safety of funds and the potential for interest payments over the attributes of the lending circle and should therefore act accordingly.

I use this stylized example to show that our thinking about ways to improve the financial lot of the poor often relies on impressions of deficits relative to a norm: We worry that they will not act rationally with their money or that they may lack the information needed to make the right decisions.

The prescription that follows from this perspective is to provide education, enabling sound and rational financial choices by providing good information. So abstracting a bit, the perspective here could be characterized as establishing a norm and then trying to develop strategies and programs to bring affected households up to that behavioral norm. The intention is certainly laudable.

So what's the problem with such an approach? In some ways, when we operate from this framework, we invalidate the tremendous work that goes into the financial decisions of low-income people.

Certainly, I'd be the first to acknowledge that it is essential to create a transparent environment in which consumers can understand products and services. So too, it is essential that they have some guidance for navigating the complexities of household finance.

These activities are obviously worthy and important. Managing finances is complicated and requires understanding of a very fluid context; "caveat emptor" is frequently the operative rule. But, there is also a critical opportunity for the financial capability field, an opportunity illustrated well by the lending-circle–savings-account example: The preference for a lending circle can serve as an entry point for understanding how and why poor families make the decisions they do. Taking their aspirations, needs, and operating practices as valid starting points makes us ask how we might design products, services, and approaches that properly serve these families. How do we craft financial products, services, and approaches that incorporate these experiences into design and in the transfer of information?

Let me go back to our lending-circle example: One appeal of such circles is that people use them to tend to their social networks while participating.

Acknowledging the social benefits of lending circles and the validity of managing one's money through them might enable us to create financial services and products that help build wealth in different, more successful ways.

We could develop products and services that complement lending-circle activities or that introduce a social element within a savings product. For instance, one could think about lending circles as part of a portfolio approach to managing household finances. Maybe lending circles are for birthday parties and weddings. Maybe savings accounts can be for cash-flow management or longer term goals, such as retirement savings, and can exist alongside lending circles. Similarly, one could take the social element of lending circles and offer a savings product that also includes meetings to plan weddings or a fun but frugal vacation. One could provide the back-end treasury function to support lending circles. The Mission Asset Fund in San Francisco has done this.

The general point is that there is an opportunity to take a fresh look at how poor families manage their money and to understand that they are trying to optimize results across a range of priorities. We all try to do that, but the trade-offs of prioritization may be starker for lower income families.

So there is an opportunity to refresh some of our ideas about the norms for financial behaviors. Research, education, and practice are interestingly intertwined in this opportunity.

This is why I think that our experience and knowledge are so relevant. Our on-the-ground experience enables us to model how one starts from a place that resonates with poor households, building trust and strategies from there.

There is definitely a role for researchers here as well.

Let me give you an example from some work done by the Consumer Financial Protection Bureau (CFPB) during my tenure there. One of the responsibilities of the Office of Financial Education is to improve the financial literacy of Americans, so the office had to develop a way to measure financial literacy. And as you can imagine, this was not a simple task. We decided early on to try to link financial literacy to an outcome—to identify financial literacy's goal. We developed a concept of financial well-being, which we view as the goal of financial literacy, financial capability, and financial inclusion.

But, what is financial well-being? What better way to find out than to ask Americans themselves? So the CFPB did that, and despite great variation in the contexts from which consumers operate financially (that is, they were demographically very diverse), four consistent themes came through in interviews: Americans define financial well-being as the ability to manage day-to-day finances, weather financial shocks, plan for the future, and make choices about what to do with discretionary monies (CFPB, 2015, p. 5). None of this sounds revolutionary, but the key is that the research acknowledged the importance of consumers' own frames of reference. In eliciting those viewpoints, the research highlighted that one way to help Americans make good financial decisions is to appeal to their own ideas about managing day-to-day finances and about making choices for discretionary outlays. So, rather than impose an outside norm, the CFPB can work with ideas that already have been articulated and in a sense are owned by American consumers, leveraging these ideas to support consumers as they navigate financial decisions.

I wish to mention another quick example of an interesting opportunity to help poor families make decisions that support their goals. This opportunity can also serve as the foundation for research. We all know that a lot of time and other resources are devoted to teaching consumers how to budget and methodically manage their money. Such instruction is valuable; some people will follow through and reap the benefits. But many others simply do not have the mental or physical time to engage in such a methodical exercise. They are going to buy a car this weekend. They might have some idea about what they can afford on a monthly basis, what car they would like, and where the dealership is, but they may not have time to figure out much else. We should acknowledge that a lot of people are in this mental space, and we should therefore look *beyond* the methodology of budgeting for different ways to help them. Everyone uses rules of thumb, so maybe we can tap into that type of mental shortcut to help stressed consumers—consumers who are not going to sit down and budget—to use their money wisely.

The point that I want to get across here is that the financial capability field can enhance its role as a bridge to upward mobility by appreciating and capitalizing on different value systems and points of reference. We can use that diversity of perspectives to broaden conversations about what products and services could be available to poor households and to expand conversations about promising approaches to financial inclusion.

This is where education, research, and practice are mutually reinforcing: If our role is to understand how poor people communicate what is important to them in actively managing their finances and how they think about trade-offs in their lives, then we need researchers and practitioners to give us a better understanding of the contours of that world. We need educators to communicate about ways to elicit information in a norm-neutral way. We need their guidance on how we might use everyday encounters with clients as opportunities to mainstream new approaches to helping them improve their financial situations. That work can and should be ecumenical and inclusive of a range of academic and practical disciplines. What can we learn from psychology, from sociology, and from health studies? As we think about an appropriate range of financial products and services for low-income households here, is it relevant to consider how Tanzanian consumers use mobile credit?

Financial well-being, providing for one's family, and seeing one's children succeed are all broadly embraced goals. And there is a diverse range of strategies for trying to get there. Our promise is to embrace that diversity in moving poor households onto the path of wealth accumulation.

References

Brooks, J., Wiedrich, K., Sims, L., Jr., & Medina, J. (2014). *Treading water in the deep end: Findings from the 2014 Assets & Opportunity Scorecard*. Retrieved from the Corporation for Enterprise Development website: http://assetsandopportunity.org/assets/pdf/2014_Scorecard_Report.pdf

CFPB (Consumer Financial Protection Bureau). (2015). *Financial well-being: The goal of financial education* (Report). Washington, DC: Author. Retrieved from http://files.consumerfinance.gov/f/201501_cfpb_report_financial-well-being.pdf

Demirguc-Kunt, A., Klapper, L., Singer, D., & Van Oudheusden, P. (2015). *The Global Findex Database 2014: Measuring financial inclusion around the world* (Policy Research Working Paper No. 7255). Washington, DC: World Bank Group, Development Research Group, Finance and Private Sector Development Team. Retrieved from http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2015/04/15/090224b082dca3aa/1_0/Rendered/PDF/The0Global0Fin0ion0around0the0world.pdf

Author

Camille Busette, PhD, is the lead financial sector specialist at the Consultative Group to Assist the Poor (CGAP). She joined CGAP from the Consumer Financial Protection Bureau, where she served as the inaugural head of the Office of Financial Education.

Suggested citation

Busette, C. (2015). *How do norms inform our approach to financial empowerment?* (CSD Perspective No. 15-28). St. Louis, MO: Washington University, Center for Social Development.

Washington University in St. Louis
George Warren Brown School of Social Work

CENTER FOR SOCIAL DEVELOPMENT
George Warren Brown School of Social Work
Campus Box 1196
One Brookings Drive
St. Louis, Missouri 63130-4899
csd@wustl.edu

csd.wustl.edu