THE FUTURE OF FINANCIAL SERVICES:
Recommendations for Asset Building

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INTRODUCTION

The financial crisis and economic downturn have reshaped the financial services landscape. While these events have by no means run their course, it’s critical to start looking ahead. Over the past year, the Center for Financial Services Innovation (CFSI) has been studying the literature analyzing the impacts and future implications of the crisis; interviewing policy experts, business executives, academics, and thought leaders; and convening small group discussions. Our goal has been to understand how impending changes—in demographics, the macroeconomic environment, regulation and legislation, technology, cultural paradigms, and institutional dynamics—will affect the structure of the financial services industry.

While we don’t claim to have a crystal ball, this process has given us some sense of the opportunities and challenges these trends may create for the asset-building field. Like headwinds or tailwinds, these trends may make it either easier or more difficult for the leaders, funders, and practitioners who are working to shape the field’s future. Some strategies will find clear skies and fast sailing, while others will have to weather choppier waters.

Overwhelmingly, current trends show that the goal of asset builders—to enable low- and moderate-income individuals to save and build long-term financial prosperity—is more important than ever. Households are facing urgent financial threats. With home foreclosures and bankruptcies soaring and unemployment hovering near double digits, it is tempting for policymakers and others to focus entirely on short-term financial needs. But this strategy would be short-sighted. Decades of research have shown that, to effectively build assets, people must pursue long-term financial goals such as homeownership or education while simultaneously managing near-term financial challenges.

This moment of cultural, industry, and regulatory change presents an opportunity to strongly rearticulate the role that asset building can play in helping low- and moderate-income households improve their financial lives.

Doing so will require a reconsideration of the strategies and tactics that define asset-building as a field. The following graphic may be helpful. Individual financial needs exist along a continuum of lifelong requirements. Individuals need to conduct day-to-day financial transactions, such as paying bills, converting income into usable currency, and sending money to friends or family. They need to build a credit history, not only to borrow money but often to rent an apartment, apply for a job, or obtain insurance. And, of course, to achieve greater financial prosperity over time, households need to save for short-term and long-term goals, such as emergencies, education, homeownership, small business investment, and retirement.

The asset-building community has traditionally focused on the far end of this spectrum and on helping lower-income communities. However, several factors suggest the need to expand this focus in two directions.

Figure 1: Continuum of Financial Needs

1 Special thanks to Peter Tufano of the Harvard Business School for suggesting the use of this graphic as a means of describing the suggested shift in the asset-building field.
First, a wider range of households now face threats to their financial security. According to the Pew Charitable Trust, 55 percent of American workers have experienced meaningful work-related hardship as a result of the recession. Unemployment is hovering around 10 percent for the United States as a whole but is much higher for some of the hardest-hit communities. Forty percent of subprime mortgages are in some stage of delinquency. This means that many middle-class or formerly middle-class families are now struggling, and that strategies to create change should aim to help more Americans across the income spectrum.

Second, given the financial disruption many families have felt, it is difficult to pursue asset-purchase strategies without simultaneously shoring up households’ abilities to conduct financial transactions, build or repair their credit histories, borrow appropriately, save for the short-term, and maintain assets they already own. Connecting asset-building strategies with efforts to meet the wide range of financial needs can be an effective way to take on this dual approach. Many successful asset-building strategies bridge various financial needs, such as connecting tax filing with an opportunity to save, or offering automatic savings as part of a loan repayment plan. Experimentation, particularly as inspired by behavioral economics, has proven that efforts to increase savings can be particularly successful when they leverage other activities.

On the basis of our recent findings, CFSI recommends several ways that long-term asset-building strategies may leverage recent trends influencing the financial services industry to accomplish this goal.

1. **Understand how demographics within the United States are shifting, and anticipate how those shifts will drive priorities for the financial services industry and policymakers.**

2. **Expand the programmatic and legislative agenda to include initiatives that support near-term consumer needs as well as long-term goals.**

3. **Develop credit-based services that prepare savers for asset ownership.**

4. **Seek new partners and channels with which to advance creative assetbuilding approaches.**

5. **Pair asset-building products with financial capability work to help clients navigate the financial services landscape.**

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DISCUSSION

1. Understand how demographics within the United States are shifting, and anticipate how those shifts will drive priorities for the financial services industry and policymakers.

As the nation’s demographic profile shifts over the next several decades, the make-up of the low-and moderate-income (LMI) consumer segment will likely shift along with it. These shifting population dynamics will have meaningful implications for the financial services industry and asset-building field, as the nature of the financial challenges facing LMI consumers can be expected to change correspondingly. To create effective strategies for their financial security, it will be important to understand the financial difficulties particular to emerging groups within the LMI segment.

The aging of the baby boomer generation (born between 1946 and 1964) is perhaps the best-known trend impacting American demographics. As this generation passes retirement age over the next 25 years, the share of the population 65 and older will increase. The U.S. Census Bureau projects 20 percent of the population will be 65 or older by 2035, up from 13 percent today.5

Today, 36 percent of Americans age 65 and older have low incomes, including the nearly 10 percent who live in poverty.6 That number may grow as the baby boomer generation ages. Statistics show that many baby boomers are in a worse financial position than previous generations, limiting their prospects for retirement. For instance, in 2007, 63 percent of households headed by someone 55 or older had some debt, an increase of nearly 10 percentage points from 1992. Among this group, the median household held $43,000 in debt, a 170 percent real increase since 1992.7 These trends suggest that the financial security of older Americans will become an increasingly significant economic and policy issue in the near future. In response to the general aging of the population, financial services providers may put greater effort into marketing and developing retirement savings products. However, these products may not be designed to meet the specific needs of retirees in the LMI segment or elderly Americans who keep working because they can’t afford to retire.

On the other side of the age spectrum, young consumers face unprecedented complexity in their first encounters with financial services. With the increased viability of nonbank financial products, young people beginning their financial lives have a wide array of options that can cause confusion and apprehension. Indeed, survey data show that 57 percent of Americans age 18—34 consider their financial situation to be their biggest concern, with 43 percent worried about making sound financial decisions.8 Financial services providers are developing mobile and online applications to appeal to the younger consumers they view as key to the continued growth of their business. Whether these products actually improve young people’s financial capability, however, remains to be seen.9

The continued influx of immigrants is another key contributor to growth in the financial services industry. Immigration, primarily from Hispanic countries, is expected to account for nearly half of American population growth between 2005 and 2050.10 Projections suggest as much as half of all retail banking growth over the next two decades may originate from the Hispanic market, as traditional depositories compete for their business.11 However, attracting this consumer group and developing products for them will not be easy. Historically, immigrants have been much less likely to use banks than the native born, owing partly to language barriers and legal status requirements.12 Additionally, efforts within the banking industry to attract immigrants have, to date, largely been restricted to transactional accounts and mortgage products, with little effort to fulfill immigrants’ short-term credit and savings needs.

9 For additional discussion regarding the challenges facing young adults’ financial capability in their first interactions with the financial services marketplace, see the CFSI white paper “Financial First Encounters: An Examination of the Fractured Financial Landscape Facing Youth Today,” http://www.cfsinnovation.com/publications/article/440684 (December 2010).
Within the population as a whole, continued stagnation of middle-class incomes and rising income inequality are redefining the customer landscape. Income inequality has been growing for decades. In 1980, the wealthiest 10 percent of American households earned approximately 35 percent of national income. By 2008, the upper tier of households earned 50 percent of income, with the wealthiest 1 percent making the greatest gains. Middle-class households have not fared nearly as well, with real incomes actually declining over the past decade. The economic downturn has dealt another blow to the middle-class. As these households attempt to recover from the damage inflicted by the financial crisis, their demand for financial services will likely change as well. There may be less demand for long-term products associated with investment, such as mortgages and IRAs, as families concentrate on stabilizing their short-term financial situation. Financial services providers can be expected to shift their focus to accommodate those short-term needs, perhaps at the expense of designing and marketing asset-building products for LMI households.

For the LMI population as a whole, incomes will most likely continue to stagnate in the near future. Various segments of this population will face distinct financial challenges. Although well aware of these demographic trends, financial services firms vary widely in their ability to develop clear and effective strategies targeted to particular segments. Large national banks can afford to invest in major market research efforts and to structure their organizations to develop targeted strategies, but they also have pressure to deliver such large returns that investing in “niche” segments can be challenging. Smaller institutions have the opposite challenge: they could benefit financially from serving smaller segments, but they rarely have the resources to invest in proprietary research or product development. The increased consolidation among large financial institutions over the last few years and the adverse economic conditions that have led to the collapse of nearly 300 banks since 2008 have exacerbated both situations.

Asset builders can help financial services firms overcome these hurdles by demonstrating the value of developing strategies for the specific segments within low-income, underserved communities. Potential near-term actions might include:

- Leverage segmentation strategies already being pursued within the financial services industry. Financial institutions have begun to implement strategies to capture the business of growing population segments. Transaction products for immigrant populations are one example. With a deep understanding of the financial challenges facing the emerging segments of the underserved community, organizations can work to strengthen connections between financial institutions’ current business development strategies and asset-building initiatives undertaken to help lower-income Americans.

- Continue to demonstrate how best to serve LMI Americans. Asset builders can take advantage of their experience in creating programs and products for various segments within the LMI population by sharing lessons learned and coordinating strategies with product providers. In this way, asset-building organizations can serve an external research and development function to enable financial services firms to offer more asset-building products and services.

- Invest in consumer research and data collection. To meet the emerging needs of each population segment, providers must understand the barriers and dynamics affecting consumers’ financial lives. Research and data collection to gain a deeper understanding of consumers and the impact of market developments are the foundation of effective asset-building strategies. Encouraging the recently formed Consumer Financial Protection Bureau (CFPB) to focus its research on the underserved community represents another way to cultivate deeper knowledge of the segments within the LMI population.

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14 U.S. Congress Joint Economic Committee.

State and federal policy discussions are currently riddled with contention. Debates over strategies for economic recovery are complicated by concerns over their potential effects on the country’s fiscal position. Demonstrations of staunch ideological opposition between the two major political parties suggest great uncertainty for legislative action. Efforts to pursue legislative support for asset-building activities must adapt to this new environment. In particular, workforce development, retirement, and education savings programs appear to fit within current policy priorities and should become a greater focus in the policy efforts of the asset-building field.

Although the United States’ economy began to grow again in late 2009, the modest pace of growth has not been enough to lower the nation’s unemployment rate significantly.16 In the near future, the still-troubled state of the economy will likely command government’s full attention. Any potential action, however, will be weighed in the context of existing budget deficits and the high national debt. The Congressional Budget Office expects federal budget deficits from 2011 to 2020 to top $6 trillion, extending a trend that has caused growing consternation among lawmakers and citizens alike.17 Developing an effective plan for economic recovery while addressing the nation’s fiscal position will be a formidable task that will likely be the highest legislative priority.

Contention between the Democratic and Republican parties further complicates the policy picture. Strong ideological conflict makes it difficult to predict the nation’s legislative actions over the next decade, and this uncertainty also affects the implementation of recently passed laws. Of particular significance to the asset-building field and the consumer financial services industry, the 2010 midterm elections have left the oversight of the CFPB to a Democratic Senate and Republican House of Representatives, adding uncertainty to this early stage of the agency’s development.

Regardless, the CFPB can potentially have a substantial impact on the financial services industry and may represent a channel to further the goals of the asset-building field. The bureau will have the capacity to instill strong consumer protections across the spectrum of consumer financial services, potentially excising wealth-stripping practices and product features from the marketplace. Its research arm may be used to more closely explore the financial challenges facing LMI consumers and identify the most effective strategies to promote asset accumulation within the segment. While the exact actions of the CFPB can’t be predicted, its role as a key institution in the financial services marketplace will likely have meaningful implications for the asset-building field.

Given the general air of uncertainty, efforts to advance asset-building strategies through legislation requiring major public subsidy need to be considered multiyear investments. Deficit concerns and ideological opposition may hamper the prospects of such proposals in the near term, particularly in the face of potential legislative “fatigue” following major healthcare and financial services reform efforts in 2010. In this environment, policy proposals that leverage behavioral economics to motivate consumer saving may have better short-term prospects. These programs rely on automated savings deposits, strategic defaults, or social commitments to “nudge” individuals toward greater saving and financial decisions that benefit their long-term financial health.18 Such proposals may serve as low-cost complements to larger policy initiatives that rely on public subsidy.

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Additionally, policies aimed at facilitating home ownership may not find much support, given the state of the residential real estate market and policy discussions around reforming Fannie Mae and Freddie Mac. Shifting the focus to workforce development, retirement, and education savings programs as means of building wealth may better fit with current policy discussions. In particular, education savings programs could be pursued in relation to current government efforts aimed at increasing financial aid offerings and boosting college attendance, particularly at the community college level.19

To achieve near-term change, asset-building policy work might:

• Promote policies that facilitate short-term emergency savings. Solutions that promote the ability to build emergency savings may have a better chance to gain political support in the near term. For example, facilitating direct deposit contributions to savings accounts may fit within a legislative agenda aimed at helping Americans through the economy recovery. Programs that encourage emergency savings without the use of a subsidy may be particularly appealing, given the focus on deficit reduction.

• Connect asset-building goals to initiatives aimed at shoring up the financial security of older Americans. Given the large number of baby boomers and the expected strain of their retirement on the Social Security Trust Fund, shoring up the financial security of older Americans will likely remain a dominant economic and policy theme. Organizations may be able to pursue asset-building goals by connecting with initiatives designed to help Americans become financially prepared for retirement.

• Incorporate asset-building strategies into workforce development programming. The high unemployment rate has been a core focus for state and federal legislators. Further government efforts to spur economic growth and increase employment are likely. To align with this focus, organizations might advocate for asset-building strategies that could be incorporated into workforce development programming, providing greater support for Americans whose financial lives have been damaged by unemployment.

• Advocate for a regulatory framework at the CFPB that supports asset-building. Because the CFPB is still under development, there is an opportunity to influence its agenda and tone. With the details of the bureau’s form still undetermined, advocating for a framework that promotes asset-building opportunities for LMI Americans and provides protection from wealth-stripping practices can help to create an effective agency with an eye on helping underserved consumers achieve financial security.

3. Develop credit-based services that prepare savers for asset ownership in the long term.

Accessing credit is key to asset-building strategies that leverage good credit profiles to accelerate wealth accumulation, but many consumers will find it more difficult in the near future, and underserved consumers will need greater guidance and support to access credit in ways that promote financial security.

The financial crisis has drastically changed the way both consumers and providers approach the lending market. Many American households are working to repair damaged credit profiles in the wake of the bankruptcies and foreclosures sweeping the nation. Nearly 350,000 foreclosure filings were reported in September 2010, the 19th consecutive month in which the number topped 300,000. This trend may continue, with some observers projecting even higher levels of foreclosures in the coming years. Nonbusiness bankruptcy filings have also grown, topping 350,000 in each quarter of 2010.

At the same time, financial institutions of all sizes have found their loan portfolios suffering as customers have less ability to repay. Rising delinquencies and charge-offs have threatened many banks and credit unions. In 2009, the number of severely stressed banks—those that could not collect on at least 20 percent of their loans—hit an 18-year high. Correspondingly, banks began to rapidly tighten their lending standards to protect their businesses. The chart below tracks responses to a question from the Federal Reserve’s Senior Loan Officer Survey. The question gauges the number of loan officers across the country seeing tightening lending standards for credit cards and other consumer loans at their banks.

Chart 1: Federal Reserve Senior Loan Officer Opinion

As the chart demonstrates, lending standards became increasingly conservative following the financial crisis. Although that trend may be changing, standards remain relatively tight and consumer debt has declined. The third quarter of 2010 was the eighth in a row in which consumer debt levels fell. On top of tighter loan standards and charge-offs of delinquent accounts, consumers have become more frugal. In 2009, consumers collectively reduced their annual cash flow by $150 billion to pay down debts. This is a marked change from earlier behavior; between 2000 and 2007, consumers borrowed an average of $330 billion a year to boost their annual cash flow.

Even as the credit markets stabilize, access to credit may continue to be somewhat restricted in the near future, particularly for certain consumer groups. For one, the experiences of past recessions suggest that a “recovery period” for consumer credit markets is likely before reaching full strength. Second, regulators and legislators are now focusing more on credit products, particularly practices that might be seen as abusive. As issuers attempt to maintain profitability while adapting to new regulations, consumers may see credit terms fundamentally altered or find their access to certain products limited. Finally, the ranks of consumers with damaged credit profiles are likely to grow as mortgage and credit card defaults continue. Repairing credit scores will remain a challenge. Even if some financial institutions institute alternative underwriting methods to serve consumers with poor credit, their efforts are not likely to meet the expected demand.

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23 The trend toward tightened lending standards extended to mortgages during the last several years as well. During 2008–2009, over 20 percent of net respondents reported consistently tightening standards on both prime and nontraditional mortgage lending. See http://www.federalreserve.gov/boarddocs/inoansurvey/201011/chartdata.htm (November 2010).
Difficulties in obtaining credit complicate asset-building strategies that rely on credit access to manage short-term needs or to leverage long-term opportunities. To help consumers overcome this barrier, asset builders can:

• Advocate for new and creative approaches to building credit. Lenders are just beginning to step back from continually tightening underwriting standards, suggesting customers with impaired credit will continue to have limited access to credit in the near future. Asset builders can work with lenders to develop alternative approaches to assessing creditworthiness. Advocating for more relationship-based underwriting methods or the use of alternative underwriting systems that rely on a wider set of financial data may reopen doors for those with damaged credit.

• Develop credit products that are explicitly designed to facilitate credit repair. As repayment history constitutes 35 percent of a FICO score, building a new track record of timely loan repayment can help consumers repair credit profiles that may have suffered during the economic downturn. However, with lenders maintaining strict loan standards, those same consumers may have limited access to credit and thus limited opportunities to increase their credit score by demonstrating successful loan repayment. Asset builders can fill this market gap by working with partner financial institutions to offer credit-builder loans specifically designed to give credit-impaired consumers an opportunity to restore their credit profile.

• Consider adopting or offering credit solutions with linked savings features. Organizations that offer credit products find linked savings features can help consumers meet current credit needs while providing an on-ramp to longer-term asset-building opportunities. For instance, some providers wrap savings contributions into required payments on loans. At the end of the loan period, borrowers not only have repaid the debt but also have accumulated savings. In the same vein, secured credit cards provide clients with open-ended credit to manage ongoing emergencies but also require those clients to hold a savings deposit as collateral against their credit limit. The deposit can be returned should the user graduate to an unsecured credit card, creating an incentive for cardholders to manage their credit well.

The trend of financial services innovation is poised to continue. Financial institutions have seen their business models challenged by the financial crisis and resulting legislation. New providers, delivery channels, and products have entered the market, giving consumers a vast array of options. These developments have both influenced and been influenced by technological advances and shifts in consumer behavior and have given asset builders more tools to impact the lives of underserved consumers. Exploring these options can help determine which are most effective and also help to uncover potential hazards.

As the financial services industry emerges from a tumultuous period, many industry leaders find themselves able to look only a short distance into the future. In the near term, banks and credit unions are working to repair their reputations with consumers and regain trust. Financial institutions are also feeling pressure to replace revenue expected to be lost as they adapt to the CARD Act, new regulations limiting the use of debit overdraft, and anticipated changes under the Dodd-Frank Wall Street Reform and Consumer Protection Act. Many industry observers argue that “free checking” will become a product of the past, as banks and credit unions will introduce new fees for basic banking products to maintain prior revenue levels. Indeed, the transition has already begun: the percentage of checking accounts with no monthly fee or minimum balance requirements fell from 76 percent in 2009 to 65 percent in 2010. Longer term, large banks will be required to hold larger capital reserves because of new regulatory requirements intended to protect the safety and soundness of banks. These factors, combined with the shock of the financial crisis and strong, ongoing regulatory scrutiny, are encouraging banks to maintain the conservative position they adopted at the onset of the economic downturn.
At the same time, new financial products and delivery channels are rapidly emerging. In particular, nonbank options often serve as banking alternatives for underserved customers. Prepaid cards, for instance, are growing explosively. The amount of money loaded onto open-loop prepaid cards is expected to grow by almost 400 percent over the next few years, with almost $300 billion expected to be loaded on the cards in 2012, as consumers increasingly use the cards as a substitute for checking accounts and employers replace paper checks with payroll cards. State governments are distributing benefits via prepaid cards, and the federal government has announced that it will distribute all benefits payments through direct deposit or prepaid cards beginning in 2013. Distribution channels are increasing as retailers enter the financial services market. Given the success of retailers such as Walmart with check cashing, bill payment, and prepaid cards, more retailers are likely to enter the financial services space.

The growing number of online financial services options provide additional banking alternatives. Online intermediaries such as PayPal are now widely accepted for conducting online financial transactions. Newer startups such as PayNearMe and eBillMe are pushing the concept further to allow unbanked consumers to make online payments funded by cash transactions at physical locations. In addition, existing nonbank products, such as payday loans, are being offered online and are meeting high demand. As internet access spreads rapidly, product development in the online channel has increasing relevance for LMII and underserved consumers. In 2000, a Pew Research Center survey found that 30 percent of people with annual incomes under $30,000 reported going online to access the internet or send email. By 2009, this number had doubled.

Expansion of the online channel has been matched by advances in mobile financial services. Already, three out of four Americans own a mobile phone. Among the underserved population, the rate of ownership, although slightly lower, is still significant, with 45 percent of unbanked consumers owning mobile phones and ownership rates reaching 70 percent for the underbanked. In the near future, the rate of ownership is projected to increase, and more mobile phone users are expected to have greater access to more sophisticated phones. By 2014, 52 percent of Americans are expected to own smartphones, up from 20 percent today. Financial services providers are capitalizing on the trend, with traditional depositors and their nonbank competitors introducing a bevy of mobile banking interfaces and payment platforms that can be accessed on all types of phones. While mobile financial services are designed to appeal to consumers across the income spectrum, the channel has considerable potential to provide services to underserved and low-income consumers.

Card-based and electronic payment channels create cost efficiencies for providers and greater convenience for consumers. From 2000 to 2006, the number of card-based payments increased at an annual rate of 11.9 percent, while the number of payments by check decreased at an annual rate of 5.1 percent. As for cards themselves, consumers have largely shifted away from credit cards to debit cards in recent years, perhaps reflecting the frugality they have adopted in response to the financial crisis. The chart below shows projections from a Federal Reserve survey that electronic payments will continue to increase.

### Table 1: Consumers’ Actual and Expected Use of Various Payment Options

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<td>% reporting decreased use</td>
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</tbody>
</table>

*Source: Federal Reserve Bank of Boston 2008 Survey of Consumer Payment Choice*

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34 Monahan and Robertson.

35 Monahan and Robertson.

Given this shift, underserved consumers must have access to financial products enabling them to use card-based and electronic channels.

The emergence of new providers and distribution channels does not mean that banks and credit unions are no longer important partners for asset building. Banks and credit unions have incredible reach. Many have demonstrated commitment to the asset-building movement over several decades and many have requirements to serve low- and moderate-income communities that provide a powerful ongoing incentive to engage in this work. Additionally, depository institutions are a necessary part of any supply chain delivering a savings product.

However, there is a need for greater creativity in engaging a wide range of partners to help LMI individuals build assets. To do so, asset builders can:

• Explore emerging offerings and providers. Increased innovation in offerings and distribution channels may yield products that are better designed and offered in a context familiar to underserved consumers. Asset builders need to maintain a complete, up-to-date picture of the tools and resources available for their particular constituency. This will help asset builders identify not only the most suitable new products or practices but also those that could harm clients’ financial health. Their direct interactions with clients can help asset builders understand any adverse effects of new products or features and potentially take action to rectify them.

• Promote partnerships between traditional and nontraditional providers. Financial institutions and nonbank providers have different competencies. Although banks and credit unions can offer a complete suite of financial products that grant access to the mainstream financial system, they may lose business to nonbank options that more readily address the needs of LMI consumers or offer greater convenience and transparency. Asset builders can act as a hub in partnerships formed between financial institutions and nonbank providers that take advantage of each organization’s strengths.

• Promote direct deposit as an on-ramp to electronic payments. Working with clients, employers, and policymakers to promote the use of direct deposit can help move underserved consumers away from the cash economy and toward electronic payments. The increasing use of prepaid cards for payroll and government benefit distribution will likely help introduce transaction accounts to the unbanked, and facilitating direct deposit enrollment will help increase adoption. In addition to improving access to electronic payment systems, direct deposit enrollment can open the door to additional support tools and product features that help consumers manage their finances and save for the future. For instance, after setting up direct deposit of pay into a transaction account, a client can set up automatic savings contributions or leverage a personal financial management platform (such as Mint or Quicken) to track spending.
Consumers’ struggles to weather the economic downturn have highlighted the need for effective financial management tools and resources. Additionally, the rapid emergence of new providers and distribution channels complicates the financial services landscape, making choices more difficult. Consumers are demanding greater financial guidance and changing their behavior to shore up their financial health. Financial institutions, nonprofit organizations, and government entities are moving to fill this demand, facilitating a shift toward greater financial capability. Asset builders can take advantage of this trend by pairing financial capability resources with asset-building products, educating consumers on how to improve their financial health while providing the tools for it.

Consumers have indicated their desire to improve their financial knowledge as well as their financial health. A survey by Mintel Comperemedia in 2009 found that 75 percent of adults sought financial education resources in response to the economic downturn. The swelling number of households suffering foreclosure or bankruptcy boosts the need for credit counseling as people seek out or are required to get help to undo the damage to their credit profiles. Consumer behavior has also shifted as many Americans become more fiscally conservative. Personal saving rates have remained elevated since the financial crisis, as demonstrated in the chart below.

Chart 2: Personal Savings of Disposable Income

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<th>Quarter</th>
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<tr>
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<td>2Q06</td>
<td>1%</td>
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<tr>
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Source: US Department of Commerce Bureau of Economic Analysis

Opportunities will exist in the next decade to leverage consumers’ heightened attention to financial management (and perhaps to saving) in order to point them toward greater financial health. In part, financial institutions may look to capitalize on such opportunities to regain consumer trust. Banks are beginning to explore simplified products and provide support resources, such as personal financial management platforms. Additionally, wider access to mobile and online technology will create new channels through which organizations of all types can reach consumers with relevant and timely advice and guidance, helping them better control their finances.

Asset builders can leverage this interest in financial management. To result in lasting improvements, education needs to be combined with opportunities to act on concepts learned. Likewise, for asset-building work to succeed, the delivery of financial services needs to incorporate opportunities to learn financial management and planning skills. The rapid evolution of the financial services landscape only heightens the need for financial guidance. Consumers have more product and service options than ever before and need more help in selecting and managing those that work best for them. Asset builders can fill this role by providing tools and resources that help people improve their financial behavior. This greater focus on behavior undergirds the new framework of financial capability, which aims to stretch financial education efforts beyond the classroom to help people make better financial decisions in their daily lives. Conversely, the delivery of financial services can be adapted to incorporate opportunities for consumers to learn financial management and planning skills.

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By capitalizing on this historic moment to deliver financial capability programs, asset builders can help consumers establish practices and behaviors with lasting benefits. Effective strategies include:

- Ensure that programs support consumers in using products successfully. To change financial behavior, financial products and guidance should be relevant, addressing participants’ specific concerns and financial situations; timely, coinciding with key life events or moments of decision; actionable, enabling consumers to put newly gained knowledge into action right away; and ongoing, developing long-term relationships to provide support and accountability. Asset builders have an opportunity to apply this framework not only to their own offerings but also to work with interested financial institutions. Partnering with such institutions to integrate new products into existing education or counseling programs can help clients pursue their financial goals.

- Go beyond traditional banking products to help clients understand their full range of options. The growing number of providers, distribution channels and products in the financial services industry can be confusing, but among the additional options there may be a better fit for a client’s particular needs. Extending the boundaries of financial education and advice to include nonbank products and providers can arm clients with a greater ability to select and manage the products and services best for them.

- Seek out technological solutions to promote financial capability. Mobile and online channels are increasingly viable for communicating with underserved consumers. Creating new and leveraging existing resources delivered through these channels can help to provide financial guidance and support. For instance, educating clients to use mobile banking will help them stay abreast of their spending and account balances. These channels also serve as low-cost methods of maintaining contact with clients.

- Incorporate principles inspired by behavioral economics to help clients stay on track. Increasingly, principles of behavioral economics are being incorporated into financial services to help people achieve long-term goals and point them toward decisions that benefit their financial health. Concepts like automation, social commitments, and defaults can serve as tools for the design of asset-building programs that “nudge” clients toward greater financial security. For example, many financial institutions now offer the ability to set up automatic savings transfers from a checking account. The federal government has considered proposals requiring employers to automatically enroll employees into direct-deposit IRA accounts in an effort to boost participation and savings. Product features developed in line with behavioral economic principles have proven effective in facilitating good financial behavior.

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39 For additional information see CFSI’s “From Financial Education to Financial Capability: Opportunities for Innovation.”
CONCLUSION

The financial crisis and resulting economic volatility have altered the course of the American economy and fundamentally changed the financial outlook for millions of American consumers. The nation’s demographics are about to undergo significant change that will bring new financial challenges within the LMI and underserved communities. Banks and credit unions are adapting to new regulations and a landscape reshaped by the financial crisis. And technological innovation is gaining speed, outpacing current notions of what will be possible in the future.

The need for effective asset-building strategies has perhaps never been greater. Households across the income spectrum face imminent threats to their financial security and a future filled with uncertainty. Laying the groundwork today to build the capacity to support these consumers tomorrow will be a critical undertaking for the field.

This research effort was undertaken in the hopes that it will provide useful context for future work and helpful recommendations for action. In the wake of the economic downturn, the asset-building field can adapt to remain a strong source of guidance and support for underserved consumers in the future by thinking bigger and broadening the scope in which they promote the financial security of low-and moderate-income Americans. As people face challenges in meeting their short-term financial needs as well as in building long-term wealth, creating holistic methods of support can help to facilitate better overall financial health among the underserved. Expanding the definition of “asset-building” to address the full slate of barriers people face in their pursuit of financial prosperity may lead to significant advancements in the field and greater consumer impact.
ACKNOWLEDGEMENTS

CFSI would like to thank the Future of Financial Services Advisory Board, created in support of this project, for their invaluable guidance and feedback during the research and writing process. Members of the Advisory Board are listed below:

Ray Boshara, New America Foundation
Ben Mangan, EARN
Eugene A. Ludwig, Promontory Financial Group
Thomas K. Brown, Second Curve Capital
Deborah Hopkins, Citi
Chris Larsen, Prosper Loans
Benita Melton, Mott Foundation
David Porteous, Bankable Frontier Associates

This research effort was undertaken with the generous support of the Charles Stewart Mott Foundation. However, the opinions and perspectives voiced in this paper are solely those of CFSI and do not represent the position of the Mott Foundation or the Advisory Board.
About CFSI:

The Center for Financial Services Innovation is the nation’s leading authority on financial services for underbanked consumers. Since 2004, its programs have focused on informing, connecting, and investing – gathering enhanced intelligence, brokering and supporting productive industry relationships, and fostering best-in-class products and strategies. CFSI works with leaders and innovators in the business, government and nonprofit sectors to transform the financial services landscape. For more on CFSI, go to www.cfsinnovation.com.

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