

**Evaluating Financial Education for the Unbanked:
Does One Size Fit All?**

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Financial professionals, policy makers, and community leaders have been concerned in recent years that individuals who are not part of the financial mainstream are inadequately prepared for today's financial marketplace. To address this concern, a number of financial education programs have been created to empower "unbanked" individuals with financial knowledge and bring them into the financial mainstream.

In 1995, approximately 13% of U.S. families were classified as "unbanked" (reported not having a transaction account, i.e., checking or savings account, money market deposit account, or money market mutual fund) (Hogarth & O'Donnell, 1999). This figure fell to 9.4% in 1998, and by 2001, to about 9.1%, reflecting only a modest decline from 1998 (Aizcorbe, Kennickell, & Moore, 2003).

Why has the financial community had a difficult time moving the unbanked into the financial mainstream? In addition to costs and available financial services and products, researchers acknowledge that educational deficiencies likely create a barrier preventing some of the unbanked from acquiring a transaction account (Prescott & Tatar, 1999). Initiatives that target the unbanked typically have a financial education component; however, little research has investigated the role that financial education plays in changing the behaviors of the unbanked.

To date, few programs targeting the unbanked have included extensive program evaluations. Research that does exist suggests that such programs have had limited success in moving the unbanked into the financial mainstream (Doyle, Lopez, & Saidenberg, 1998; Good, 1999; Hogarth & O'Donnell, 1999; Prescott & Tatar, 1999; Beverly, Tescher, Romich, & Marzahl, 2001; U.S. General Accountability Office, 2002). However, most

of these programs define program "success" by the number of accounts opened rather than by the impact that financial education has on account ownership decisions.

The purpose of this paper was to provide insight into how financial education programs targeting the unbanked can better meet the financial needs of the unbanked and their communities. The paper used data collected from participants of *Money Smart*, a financial education program sponsored by the Federal Deposit Insurance Corporation (FDIC). The findings suggest that the financial community may want to redefine program "success" with respect to the unbanked. The best measure of "success" may not be the number of accounts opened, but whether the program has provided participants with financial skills to make sound decisions given their particular financial circumstances.

Sample

One of the main objectives of *Money Smart* is to encourage participants to open an account. It also provides comprehensive financial education to help participants enhance their money skills, make informed financial decisions, and create positive banking relationships. The program consists of a set of 10 training modules that cover a number of financial topics for low-income individuals, including general banking services, choosing and maintaining checking and savings accounts, budgeting, the importance of saving, and obtaining and using credit effectively.

Between May 2002 and February 2003, data were collected from 408 individuals who participated in the program at select locations in the Chicago area. Participants included welfare-to-work participants, Spanish-speaking immigrants, Chinese immigrants, public housing residents, and individuals who participated in *Money Smart* through continuing education programs at community colleges. Information also was collected from the *Money Smart* instructors and key contacts at participating financial institutions located in the Chicago community.

Of the 408 individuals who were asked to participate in the evaluation, 226 completed both pre- and post-evaluation surveys. Information was collected from participants at the beginning of the program on their current banking activities and knowledge of key financial concepts. At the close of the program, information was collected on overall impact of the program, the participants' anticipated banking behaviors and individual characteristics.

Data were collected from both banked and unbanked participants. However, for the purpose of this paper, only data from unbanked individuals are discussed. Participants were classified as "unbanked" if they reported having neither checking nor savings accounts; almost 41% of the 226 participants (n = 92) reported they had neither a checking nor savings account. See Lyons and Scherpf (2003, 2004) for more details about the program, the evaluation methodology, and the sample.

Results

Unbanked *Money Smart* participants were asked at the end of the program to check the response that best indicated how much they agreed with the following three statements:

1. "Because of this program, I am more financially knowledgeable."
2. "Because of this program, I feel I can manage my finances better."
3. "I feel that I can use what I learned in this program on my own."

They were further asked "After participating in this program, do you plan to open an account? And if so, why or why not?" See Table 1 for a summary of the impact findings.

The findings provide evidence that the financial education program *Money Smart* did encourage the unbanked to plan to open an account. Upon completion of the program, over 80.4% of the unbanked participants (n = 74) indicated that they intended to open an account. Of these, over 95.0% agreed that, as a result of participating in the program, they were more financially

knowledgeable, were better able to manage their finances, and were able to use what they learned on their own. In addition, those who planned to open an account were more likely to strongly agree to all three impact statements, while those who did not plan to open an account were more likely to merely agree. However, this finding may be due to the fact that those who were more satisfied with the program were more likely to respond that they “planned to open an account.” Also, planning to open an account does not necessarily mean that an account was actually opened. More importantly, planning to open an account does not necessarily mean that an account *should* be opened.

Table 1
Summary of Impact Findings for Program Evaluation (N=92)

Impact Statement	Unbanked (N=92)	Unbanked	
		Plan to open acct (N=74)	Do not plan to open acct (N=18)
<i>I am more financially knowledgeable:</i>			
Strongly Agree	53.3	62.2	16.7
Agree	42.4	36.5	66.7
Not sure	4.3	1.3	16.7
Disagree	0.0	0.0	0.0
<i>I can manage my finances better:</i>			
Strongly Agree	48.9	56.8	16.7
Agree	44.6	40.5	61.1
Not sure	5.4	2.7	16.7
Disagree	1.1	0.0	0.5
<i>I can use what I learned on my own:</i>			
Strongly Agree	53.3	58.1	33.3
Agree	41.3	37.8	55.5
Not sure	4.3	2.7	11.1
Disagree	1.1	1.4	0.0

Unbanked participants were asked to provide a written explanation for why they planned, or did not plan, to open an account. See Table 2 for a summary of the qualitative responses.

Unbanked participants who planned to open an account indicated that they were more financially prepared to open and maintain a healthy account than were those who did not plan to open an account. (A healthy account is one in which the individual maintains a positive balance in the account and does not overdraw on it.) The most common reasons cited for planning to open an account were establishment of long-term financial goals through the program and desire to meet those goals and/or establish financial security. Many indicated that they had a particular financial goal in mind (i.e., to save for a downpayment on a house, to have children, for an education, or to create a financial cushion in case of an emergency). Others indicated they felt more knowledgeable about the banking system and more comfortable opening an account because of the program. Some wanted to re-establish creditworthiness, improve credit scores, and save enough money so they did not have to worry about having enough money to pay their monthly bills.

Table 2
Reasons Participants Plan to Open or Not Open An Account
(N=92)

Why Participants with No Account Plan to Open an Account

1. To meet financial goals and/or for future security (e.g., house, children, emergencies, etc.)
2. More financially knowledgeable now
3. It is a “wise thing to do”
4. To re-establish creditworthiness
5. To pay bills

Why Participants with No Account Plan Not to Open an Account

1. Not enough money
2. Currently unemployed
3. Still do not trust banks
4. Already have an account

The most common reasons unbanked participants cited for not wanting to open an account focused on being financially unprepared to open an account. Most cited a lack of money as the main reason for not planning to open an account. Several also indicated that they currently were unemployed. Others felt that, even after the program, they still did not trust banks. This last finding is consistent with prior research that shows some unbanked populations, especially new immigrants, are less likely to use formal financial institutions because of attitudes and perceptions towards banks that were shaped by negative experiences in their country of origin (Toussaint-Comeau & Rhine, 2000). According to Toussaint-Comeau and Rhine (2000), it is not uncommon for unbanked immigrant populations to indicate that they “do not like dealing with banks” or they “do not trust banks.”

The reasons guiding unbanked participants’ decisions about whether to open an account were particularly insightful, providing some indication of the program’s impact on participants’ account ownership decisions. Program participants who planned to open an account indicated that, as a result of the program, they 1) felt more comfortable opening an account and 2) recognized the long-term importance of establishing an account. With respect to those who did not plan to open an account, the findings suggested that, even after participating in the program, they were not likely to be in a financial position to open and maintain healthy accounts.

Discussion and Implications

The findings from this Chicago case study have important implications, especially with respect to how financial education programs such as *Money Smart* can meet the financial needs of the unbanked and their communities more effectively. A number of lessons can be learned from this study and applied to similar programs.

First, financial education programs that target the unbanked typically measure program “success” by the number of bank

accounts that are opened. While evidence showed that *Money Smart* succeeded in encouraging the unbanked to plan to open accounts, it also indicated some individuals were financially unprepared to open accounts even after participating in the program (See Lyons and Scherpf (2004) for further details). Informal discussions among program participants, instructors, and the banking community revealed that, upon completion of the program, unbanked participants were aware of the benefits of mainstream banking (Lyons & Scherpf, 2003). Participants also knew that alternative financial services were often more expensive. However, even with an increased level of financial knowledge, they made the decision that, given their current financial situation, it was still best not to open an account.

Policy makers, financial institutions, and community leaders need to keep this in mind as financial education programs continue to be developed to target the unbanked. Unbanked individuals who are not yet in financial positions to maintain healthy accounts may not best be served by programs strongly encouraging them to enter mainstream banking. Thus, the best measure of program “success” may not be the number of accounts opened, but whether the program has provided the participant with the financial skills and tools needed to make sound decisions given their particular financial circumstances.

A second key insight gained from this study is that a better understanding of the unbanked is needed. Current efforts to move unbanked individuals into the financial mainstream acknowledge that diversity exists among them, yet the majority of programs and initiatives continue to target the unbanked as a single population. If the primary goal of programs such as *Money Smart* is to facilitate the transition of the unbanked into mainstream banking, then it is critical that program planners distinguish unbanked participants who are in a financial position to maintain a healthy account from those who are not.

Programs need to identify three key groups among the unbanked. The first group consists of unbanked individuals who are in a financial position to open and maintain a healthy

account, but who lack the financial knowledge needed to enter the financial mainstream. These individuals have the greatest likelihood of benefiting from a financial education program like *Money Smart* that introduces mainstream banking and associated products and services. The second group consists of unbanked individuals who are marginally in a position to open an account, but need the "right" product. Such individuals also would benefit from financial education and information about new, less-costly financial products for the unbanked, such as stored-value cards and specialized, low-cost bank accounts. The final group consists of those who are unable to open and maintain a healthy account regardless of knowledge and/or the financial product. The effectiveness of programs such as *Money Smart* could be enhanced if unbanked individuals who lack the means to sustain an account were targeted with more detailed financial education on the use of low-cost, alternative financial services. Programs for this group might also focus on providing education about accessing needed resources like free job training or low-cost child care to improve employment opportunities. The bottom line is that programming targeted to specific groups within the unbanked would result in a better allocation of resources. Thus, programs like *Money Smart* may not be "one size fits all."

A final lesson that can be learned from this study is that one should be skeptical about whether the 80% of unbanked participants who reported their intention to open an account actually opened one. Several attempts were made to obtain cooperation from community banks to follow up with program participants who did not have an account to see if they later opened one (Lyons & Scherpf, 2003). In the end, these attempts were unsuccessful primarily because community bankers indicated that they could not see what they had to gain financially from being involved in this process. Initially, it was believed that the Community Reinvestment Act (CRA) would provide some incentive for banks to participate in a follow-up study, especially since CRA encourages banks to provide services and products that better meet the financial needs of the low- and moderate-income

communities in which they operate. However, that was not the case. In addition, for confidentiality reasons, the bankers did not feel comfortable participating in a project where account information was going to be released, especially with a sensitive target population such as the unbanked.

As programs for the unbanked continue to be developed and evaluated, it is critical that local financial institutions be involved in the process so they can see the value of such programs. Their support and cooperation is needed to conduct comprehensive evaluations to establish whether programs are working. In the end, an effective financial education program for the unbanked requires a combination of innovation and cooperation from both community-based organizations and local financial institutions.

Overall, while this study reflects the financial behaviors and program experiences of a small, select group of *Money Smart* participants in the Chicago area, the findings provide policy makers, financial institutions and community leaders with a better understanding of how financial education programs such as *Money Smart* can meet the financial needs of the unbanked more effectively. This study also lays a foundation for other researchers to follow as they develop and evaluate similar programs so that comparisons can be made across programs.

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