Global consumer finance:

Sharing knowledge for better research

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Introduction

Global consumer finance is in flux. Change in markets, products, customers technologies, regulations, and people are making it difficult for those of us who are working in consumer finance to understand the present, let alone predict the future.

These changes affect all sectors. Banks face competition from non-bank providers. NGOs are harnessing new technologies to provide credit and assistance. Governments need to understand people's financial behaviors across international borders. And academics are finding that new sources of data present both possibilities and challenges.

Consumer finance researchers and the people we work with–designers, user insight specialists, managers, NGO workers, policy specialists–are innovating as fast as these global changes occur in order to maintain good customer insight, innovate products, and understand how people are adapting to broad-sweeping changes.

And yet we are struggling to keep up. The intermingling of products, people, and markets means that it is difficult for one organization working alone to garner all the information necessary to understand consumers as financial beings. The same is true of using isolated methods: using only qualitative *or* quantitative methods leaves gaps in our consumer profiles.

How can we adapt to global changes in consumer finance to achieve better research outcomes?

We contend that knowledge sharing is the only way forward. Disseminating our approaches, methods, and even (where appropriate) our data sets will help all of us to do better research. In fact, for-profit and non-profit organizations alike are increasingly finding that joint ventures are the most efficient, if not the only, way to solve certain problems. For example, NGOs increasingly create multilateral alliances with companies and governments to deliver aid and assistance, such as microfinance products. Telecommunications companies partner with NGOs to deliver mobile money services, which are notoriously difficult to scale. And academics are finding that they must break out of their disciplinary silos to find answers to key questions.

It is clear that cooperation can provide significant benefits across the board. The problem to date is that there are few avenues through which we can share our innovations across all sectors of consumer finance (commercial, government, development, academia). Much commercial information is proprietary. Most academic journals live behind pay walls. NGO reports logically focus on outcomes and do not always describe their research and evaluation processes in detail. Even if all of this information were recorded and published in open access sources, most researchers don't have time to search through thousands of articles to find relevant information.

This knowledge compartmentalization needs to change. But how?

Our project, *Consumer Finance Research: Global Methods and Approaches*, explores ways in which consumer finance knowledge and expertise held in different sectors can be shared to the benefit of all. This paper is one of a series of products that will compile information about consumer finance practices globally so that stakeholders can learn about innovations taking place in other sectors.

In this paper we undertake three tasks. First, we identify common challenges faced across consumer finance industries. Second, we assess expertise and innovations of different sectors. Third, we suggest areas in which different sectors or disciplines could usefully collaborate.

This paper is not a blueprint for collaboration. Rather, through providing a broad-brush overview, it is intended to facilitate conversations towards cooperative endeavors. As such we welcome feedback, criticism, and ideas. These will help us develop outputs that speak to the needs of a diverse array of people working in consumer finance.

Consumer finance: The big picture

Consumer finance is huge. While much attention is paid to so-called "high finance," consumer finance accounts for the majority of transactions worldwide via both formal and informal services. Annual retail banking revenues amount to around $3.4 trillion.[1] According to the World Bank, global remittances reached $401 billion in 2012.[2] In 2012 there were around 333 billion non-cash payment transactions, and m-payment transactions are expected to reach 28.9 billion in 2014.[3]

At least as important as revenue and transaction figures are the numbers of people served. There are around 5 billion adults around the world using financial services, of which approximately 2.5 billion adults worldwide are without a formal bank account.[4] Virtually all adults in the world—and many minors—consume financial products and services.

1 McKinsey file:///home/erin/Downloads/The_triple_transformation_Achieving_a_sustainable_business_model.pdf

2 World Bank http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/0,,contentMDK:21924020~pagePK:5105988~piPK:360975~theSitePK:214971,00.html

3 Capgemini World Payments Report 2013, http://www.capgemini.com/resource-file-access/resource/pdf/wpr_2013.pdf

4 CGAP, http://www.cgap.org/blog/measuring-financial-exclusion-how-many-people-are-unbanked

These consumers choose from a dizzying array of financial providers and products. In the more traditional retail sector, consumers are provided for by retail banks, credit unions, mortgage brokers, and payday loans companies, among others. Newer, non-bank industries include remittance services, payments services, mobile banking, mobile money, e-wallets, and microcredit. In alternative finance, we have seen the development of Bitcoin, the Brixton pound, and crowdfunding, to name but a few. And the 2.5 billion people who lack bank accounts are not without services either: even when few or no formal financial providers are available or accessible, they use a wide range of informal savings, credit, and insurance services.

Diverse contexts, common problems

Given this range of markets, people, providers and products, it would appear difficult, if not impossible, to identify commonalities across all sectors of consumer finance. But despite this diversity, commonalities do exist. Identifying them can help us figure out how to work together to cope with the scope of consumer finance and its diversity. We focus on two broad and interrelated commonalities, human diversity and consumer choice, and discuss the range of universal issues that they entail.

Human diversity

Anthropologists like to say that the one thing that all humans have in common is our diversity. In fact, diversity is the first item on our list of commonalities across consumer finance.

When doing consumer finance research, we all have to figure out how to deal with diversity. How do we segment markets? When we want to understand how households use financial products, do we just focus on one kind or try to gain a sense of how people incorporate all kinds of financial products into their lives? When designing a national survey, how do we choose which questions to include? When we begin a research project, we all have to consider a diverse range of possibilities and decide where to draw our parameters.

We recently asked Simon Lelieveldt, payments consultant and financial historian, whether he thinks that consumers have changed much over the years. He responded, in no uncertain terms, that consumer demands and habits have changed significantly over time. For example, Dutch consumers were once remarkably credit averse, but today they have adopted (to some extent) the global trend in provision of financing for consumer goods, such as through using credit cards and taking out mortgage-backed loans. But it's not just a question of history: even today, in the height of globalization, we can't expect people to be the same. Even in such a small country as the Netherlands, some groups of finance consumers are markedly different from others. For example, residents of the "bible belt" do not believe in insuring their homes. We are not only facing national diversity but also local diversity. So if we want to understand the big picture, our thinking needs to be what the anthropologist Paul Farmer calls "geographically broad and historically deep."[5]

We don't wish to claim that we need to undertake such a broad analysis for everything we do in consumer finance. On the contrary: we want to solve problems as efficiently as possible.

One particularly important shift in thinking has occurred over the last few decades to assist us in understanding this diversity without analyzing life, the universe, and everything. Across all sectors there has been a clear refocusing from product-centricity to people-centricity.

The annual reports of retail banks reiterate repeatedly that "the customer comes first." This is more

5 Farmer, P. (2004). An Anthropology of Structural Violence. Current Anthropology, 45(3), 305–325.

than lip service: over the past two or three decades, banks have implemented customer insight teams and combined experts from various teams (such as product design and marketing) to consolidate their understanding of people.

In fact, when it comes to combining methods, different types of data, and people with different expertise, commercial providers appear to be ahead of the game. With a need to solve very specific problems in a timely manner, they are incentivized to look wherever they can for ways to produce realistic and useful answers. They work with multiple methods and hire external consultants such as user insight specialists, ethnographers, and marketing companies to fill the gaps in company knowledge.

In the area of financial inclusion, development workers have learned that delivering microfinance products successfully requires an intimate understanding of the client *in situ*. In emerging markets, there is often not a great deal of formal, verifiable data on potential clients. “Know Your Customer” (KYC) can mean far more than verifying an individual's legal identity. People may not have bank accounts or ID cards. They might live in remote areas. As a result, development workers have found that they must put in the hard yards to “pound the pavement” to talk with people in the places where they live.[6]

As such, their research method approximates the primary method that anthropologists have been using for over a century: ethnographic fieldwork. Dating at least as far back as World War I, anthropologists have been studying systems of exchange, credit instruments, local forms of money (such as shell money), stores of value in cattle, and savings instruments.

Today, anthropologists are just as likely to be studying mobile money, conditional cash transfers,

6 This is how Muhammad Yunnis described how he developed the idea of microfinance in his book “Banker to the Poor” (1998, Aurum Press).

mortgages, credit card use, and Bitcoin adoption.[7] Until recently, there was little to no recorded data on financial transactions in the societies that anthropologists studied, so they developed a wide range of methods to observe and quantify financial transactions.[8]

In academia, consumer finance research is densely populated by psychologists and behavioral economists, who turn the art of understanding human behavior into a science. Their studies are particularly useful for testing models and observing decision-making. Outside of the lab, randomized trials and other evaluative methods are probably the closest to approximating lab conditions.

Data sets are also coming into play in a big way. There are now relatively few people in the world who completely lack a paper (or electronic) trail. In fact, the problem is more likely to be choosing which data sets to use in our research, figuring out how to get hold of them, or deciding how to analyze them. Government censuses, surveys, customer data accrued by providers, mobile data, and internet payments all provide valuable information on consumers as individuals and in aggregate.

So, which are the better sources of data? It all depends upon what questions you want to ask. If you are interested in patterns of depositing and withdrawing money, then you are probably better off with quantitative data. Self-reporting is notoriously unreliable and it can also be difficult to verify this kind of information by watching what people do in person. But if you are looking into setting up a payments service or microfinance institution, you might want to consider spending time with people to observe what services they currently use.

There are dozens of methods that are useful in consumer finance research, and there are new ones being developed and refined constantly. Each method has its advantages and disadvantages, and we

7 See the IMTFI's research network: http://www.imtfi.uci.edu/research/index.php
8 See Gregory, Chris A., and Jon C. Altman. *Observing the economy*. Vol. 3. London: Routledge, 1989.

will discuss a number of them in our forthcoming toolkit. The purpose of my brief outline here is to point out that, when it comes to understanding the customer, there are a broad range of methods and approaches that can be applied. While we don't have to all be experts in the complete range, it helps to have a general idea of the range so that we can choose widely. Deciding that we will be customer-centric is not enough: we also need to know how to collect the right kinds of information in appropriate ways.

Consumer choice

A problem facing providers and consumers alike is the astonishing array of financial products and services that are available today. From the provider's point of view, it is increasingly difficult to understand one's clients when many (or most) of their financial transactions take place elsewhere.

From the customer's point of view, this greater choice provides various benefits. First, there are more products to choose from, and this increases the likelihood that people will be able to find a product that suits their needs. Second, competition means a demand-driven market and lower prices. But making good decisions can be difficult and stressful. People are notoriously choice averse: when faced with too many choices, most of us will refuse to choose anything and leave empty handed. Part of the problem is that not only are there many options, but also that, for the majority of adults in the contemporary world, individuals have far more freedom to choose than they used to.

Often the freedom of greater choice can be marred by the burden of having to choose. The anthropologist Daniel Miller coined the term “the burden of self-creation” to explain this contradiction. We have more freedom than ever before to shape our own identities, and we use consumer products to do so. But the task of choosing, of sorting out what matters from what doesn't, can be daunting. Freedom of choice therefore has both positive and negative aspects from the viewpoint of human psychology. This contradiction affects all consumers in their daily choices, but can be particularly difficult for consumers choosing financial products, where a lack of financial literacy often makes choice more difficult for consumers. This conundrum is well understood within consumer finance industries. One only has to talk with, say, a person designing an interface to sell online insurance to understand that striking a balance between providing enough choice and not too much choice is a fine art.

Throughout most of the twentieth century, consumer finance in established markets was dominated by retail banking. A combination of regulation and efficiency of scale meant that it was difficult for smaller players to establish a foothold in the market and so retail banking in any individual country tended to be dominated by a few major players. The result is that, today, government regulation is less concerned with limiting the number of retail banks (as was the case with, say, wildcat banking in the United States throughout the 19th century), and is more concerned with creating competition. This is particularly the case since the global financial crisis of 2008. For example, in the United Kingdom, the major four banks hold 77 percent of current accounts.[9] Since the GFC there has been a move by government bodies to break up the holdings of the major banks,[10] and there are discussions under way to introduce new legislation to increase the foothold of smaller retail banks and facilitate the establishment of a major new retail bank.[11]

But it would be a mistake to view “retail banking” as synonymous with “consumer finance.” Even in the United Kingdom, where customers are slow in adopting multichannel banking, engage in low levels of account switching,[12] and prefer to do their banking in person in high street branches, e-consumer and m-commerce products are proliferating. Some of these are bank-specific, such as

9 UK banks face break-up threat as watchdog plans competition probe, by Steve Slater, Reuters UK, 18 July 2014.
10 Lloyds and RBS could be forced to sell more branches, by Jill Treanor, The Guardian, 20 June 2013.
11 U.K. Opposition Party Plans Bank Sector Shakeup, by Nicholas Winning. Wall Street Journal, 16 January 2014.
12 According to the Competition and Markets Authority, rates of account switching for UK current accounts are just 3%: Personal current accounts and SME banking, CMA, 18 July 2014.

Barclays Pingit. Others are used by multiple banks, such as Paym, which was developed by the UK Payments Council. Yet others are offered by non-bank providers, including SumUp, Intiut Pay, and the World First Money Transfer App. But these products are very new. Given UK consumers' reluctance to abandon high street banking, it will be interesting to see how they are incorporated into customers' use of more traditional financial services.

Perhaps unsurprisingly, it is the United States that leads the way in the development of new technologies for consumer finance. But a major reason why the United States was an early innovator was because they needed to find ways to cope with their fractured banking system. From the early 20th century, various companies invented the precursors to credit cards. In 1921, Western Union began to issue charge cards that were printed on paper, and in 1934 American Airlines issued Air Travel Cards. The 1950s saw the development of Diners Club, Carte Blanche and American Express cards. The first automatic teller machine was installed in New York City in 1961 by the City Bank of New York. It is strange, then, that paper checks continued to dominate transactions until December 2004, when electronic transactions finally overtook checks.[13] Today, technology companies are among the more interesting actors to watch on the U.S. scene. While many of their product innovations carried out by companies such as Google and Apple take place on U.S. soil, their global reach means that their services have the potential to affect consumers from all around the world. Just as Paypal provided a means for consumers around the globe to transact among themselves swiftly and inexpensively, so are Google Wallet and Apple Pay poised to significantly alter consumer finance.[14] Services such as these are integral to the transformation of consumer finance from something that happens within domestic markets, defined by national borders, to a practice that integrates people, providers, and regulatory bodies around the globe.

And yet this financial globalization does not necessarily mean that we are all becoming electronic

13 http://economistsview.typepad.com/economistsview/2005/09/how_fast_are_de.html
14 http://www.engadget.com/2014/10/29/week-apple-pay-google-wallet/

transactors. Even when services exist (which, in many places, they do not), there are still people who choose not to use them. There is some evidence that this is not just caused by a delay in response by sectors of the population who are not technologically savvy. In the United States, Lisa Servon has written about consumers who avoid banks at all costs (well, for a higher cost). Servon spent four months working eight hours per week at RiteCheck, a check-cashing service, and staffed a hotline for people experiencing difficulties with payday loans, to understand why people would use these kinds of expensive services rather than use banks.[15] In the South Bronx, where she worked, only half of the residents had a bank account.

One thing that Servon learned is that taking payday loans is a cheaper alternative to paying overdraft fees. Moreover, customers found it difficult to predict what banks would charge them. From the customers' perspective, it is not the payday lenders who are “sleazy” and “predatory”, but the banks. Servon did not find one single customer who wanted to be “more banked.” We cannot therefore assume that the best options for people are those that are either technologically advanced or mainstream. People make choices for all kinds of reasons, according to a logic that is personal, circumstantial, and contextual. We need to uncover their logic.

This also holds for the 2.5 billion people in the world who do *not* have bank accounts. As we know by now, not having a bank account does not mean that people have no access to financial services. Even where formal services are not available or accessible, people have access to a rich suit of informal services. The 2009 book *Portfolios of the Poor* illustrated this incontrovertibly. The services that their research participants in India, Bangladesh and South Africa used included saving money in different money boxes for different purposes, lending money to a neighbor in order to avoid spending it, paying someone to mind their money and borrowing from informal lenders.[16]

15 http://www.newyorker.com/business/currency/the-high-cost-for-the-poor-of-using-a-bank
16 Collins, Daryl, et al. *Portfolios of the poor: how the world's poor live on $2 a day*. Princeton University Press, 2009.

During our research for our IMTFI project on money in Haiti,[17] Heather Horst, Espelencia Baptiste and Erin Taylor observed people send money via boats that take nine hours to travel between two towns, running just twice per week, rather than using Western Union. Although the boats are a slow way to send money, the service is free. Nor did customers quickly shift to sending money via their mobile phones once Digicel TchoTcho was introduced. However, given Digicel's lack of promotion for their mobile money service in those early days, it is possible that the lag in shift to electronic was at least partly due to a lack of knowledge about the product. Moreover, knowing about a product requires knowing more than that it exists: people also need to be empowered to use it. Maarten Boute, CEO of Digicel Haiti when mobile money was introduced, commented that

> “Our main lesson learned is how difficult it is to educate customers...When we launched the service we assumed it would be something like selling a mobile phone, where you stick a mobile phone into someone's hand and almost anyone can start using it quite quickly because it’s very easy to understand. With a mobile banking service or a mobile money service it’s not quite that easy.”[18]

Boute has a point. While it is difficult to pinpoint a reason why Haitians may be slow to adopt mobile money, it is perfectly feasible that, unlike in the case described by Servon, financial or technological literacy may be a primary driving force. If people lack knowledge, they cannot make the choice to use or avoid particular financial products. This is why governments, central banks, industry bodies, service providers, and NGOs around the world invest in financial literacy programs. Indeed, regulatory bodies in particular tend to focus on financial literacy as a vehicle for promoting consumer choice and also consumer protection.

17 See our 2010 and 2011 reports: http://www.imtfi.uci.edu/imtfi_haiti_money_transfer_project
18 Quoted in “Overselling mobile money in Haiti” by Tate Watkins, Haiti Rewired, 11 June 2012, http://haitirewired.wired.com/profiles/blog/show?id=4920407%3ABlogPost%3A77664&commentId=4920407%3AComment%3A78008&xg_source=activity.

When information is not available, or when consumers do not take the time to review the information that exists, decisions tend to be made on trust. This is something that retail banks know well. For hundreds of years they have cultivated an image of stability and conservatism to convince depositors that they are placing their money (and their debts) in good hands. The annual reports of banks emphasize the creation and extension of "customer loyalty" as a primary goal. Of course, the reasons why consumers stay with the same providers may have nothing at all to do with how much they trust or like banks. Rather, research suggests that banks are some of the most unpopular businesses around, and people stay with the same bank for years or decades because they consider all banks to be universally untrustworthy, so there is little potential advantage in switching.

Some smaller banks have attempted to rebrand in such a way that they are seen more as providers of consumer services than as actual banks. In the UK, Virgin Money, which has a retail banking license, is attempting to capitalize on its image as a company that provides a range of services to slough off the negativity associated with banking. As such, they attempt to emulate the images presented by non-bank providers, which are not generally laden with this history of distrust. This gives them a potential advantage over traditional banks when it comes to taking a market share in payments. The characteristics and branding of products such as Mpay or Paypal align them more with consumer services than with banking processes. In Haiti, Digicel boast an extraordinary popularity that we had never observed with any other company. During our fieldwork, people told us things like "God sent Digicel to save Haiti" and "Digicel should be President of Haiti."[19] This gives them a clear edge when it comes to expanding their services into consumer finance, so long as they can solve the problem of information.

Collaborating for consumer finance research

19 http://erinbtaylor.com/mobile-money-and-the-social-good-of-financial-globalization/

How can these diverse stories about consumer choice help us to understand the present, and work towards a future that is valuable and desirable for consumers and providers alike? Asking questions about the behaviors of diverse groups of people can increase our awareness what the possible answers might be. It can derail our mistaken assumptions and improve our ability to ask the right kinds of questions. But nobody has the time to undertake a fully comprehensive, multi-methods, historical, contextualized global survey of consumers using formal and informal financial products.

Is there any way that we can take a short cut? Are there tools we can use to get better information, more efficiently, that we can apply to the problems that we urgently need to solve?

Historically, there have not been many effective avenues through which all of us working in consumer finance can readily share knowledge, information, and advice. But technology is also providing us with new ways to work together. We can use online communication, discussion groups, file sharing, massive data sets, sophisticated search engines, and advanced analytic tools to make sense of diversity driven by technological innovation and share insights.

Alongside this technological development has emerged the “knowledge broker”, individuals or groups who foster individual and institutional networks, build sharing platforms, identify blockages in information sharing, and create knowledge products. Knowledge brokers are likely to have a good grasp of different aspects of knowledge production, such as of different kinds of methods.

There is also the information sharing economy, propagated by recent technological advances. Rather than depending upon key individuals, the information sharing economy tends to operate through temporary or spontaneous networks of individuals who come together to work on a particular project or task. The open source software community is a prime example of making these kinds of networks function in a successful and highly organized fashion.

Consumer finance can build upon these methods to better share information. A first step is to acknowledge the strengths and weaknesses of our own research. When we spot a shortfall, we can reach out to experts in other areas for collaboration. When we realize that we're innovating, we can share what we are doing in order to promote our own work and assist the development of our sector.

There is also a need to step back and take a look at the “big picture” of consumer finance. In this project we aim to produce a range of knowledge products that take this step. This paper argues *why* we need to cooperate. The next product, a toolkit of research methods, will provide a more detailed glimpse into the methods used by various consumer finance researchers and the insights they have gained from them. Later products will look more closely into how different sectors frame the customer / client / user and how these framings impact our profiles of people.

We hope that our products will help to bridge the knowledge sharing gap and assist people working in consumer finance to find short cuts to useful and actionable information. But they cannot be made without input from people working across consumer finance. We encourage all of you who are working in consumer finance to get in touch with us and share your observations and insights into a fast-changing world of consumer finance.