

Research [in] Brief

When Might Financial Exclusion Merit Policy Intervention?



Primary issue

Policymakers do not generally intervene to ensure access to a specific service unless that service is deemed essential to society, for example, access to healthcare or education. There is debate around whether policymakers should act to increase access to banking services for the benefit of society. In examining this issue, researchers use a utilitarian approach to think about whether having people unbanked is economically “efficient” — societal benefit cannot be improved by opening an account — or “inefficient” — when policymakers’ intervention could be justified to bring about societal gain.



Key findings

Using a simple economic framework, researchers find that if either the bank or the customer underestimates the benefits of the banking relationship, either to themselves or to wider society, exclusion from the banking market may be inefficient and thus have a detrimental effect on societal well-being.

- This can be corrected by ensuring that the relationship is mutually beneficial by, for instance, imposing fees to mitigate the bank’s risk or providing financial incentives to encourage the customer.
- Policy can also help to alleviate frictions. For example, financial education can help individuals better understand the benefits of having a bank account, and it can help bank staff to better assess the needs of local communities.



The bottom line

The decision of whether or not to open a bank account might seem like a simple matter of calculating benefits and risks to a bank or individual customer. However, in some instances the benefit to society from opening a bank account may be greater than the bank and customer realize, and in those cases, policy intervention to incentivize behavior may be justified.



Want to find out more? Read “Why Worry About Financial Exclusion?” at clevelandfed.org/ec202209.

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