

Can Alternative Financial Services Products Help the Underbanked?

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The Big Picture

- Financial services for the underbanked have become more diverse and sophisticated
 - Unquestionable increase in the availability of financial services to the underbanked
 - The central policy question: At what price?
 - Are these services beneficial to their users?
 - If not, what to do?

Paper 1: Prepaid Spending Cards

- Paper is a useful first glimpse at some basic facts about prepaid cards and cardholders
 - Good data on transaction types and amounts
 - Limited data on where holders get cards and how they use them
 - Limited information on cardholders

Suggestions

- Generally, focus less on description and more on framing the economic issues:
 - What do we *want to know* about this market?
 - Do these data answer any important questions about the market?
 - If not, what data would allow us to answer those questions?

Some Possibilities

1. Why does anyone use these cards given how incredibly expensive they are?
2. How do we rationalize the specific behavior we see (e.g., ATM withdrawals)?
3. Should we think of prepaid cards as a well-functioning competitive market?

Paper #2: Payday Loan Pricing

The paper's stated findings:

1. The mandated price ceiling is potentially a bad thing
 - The evidence: prices move toward the ceiling over time
2. Lenders exploit switching costs for repeat customers
 - The evidence: prices for rollover loans are higher than for nonrollover loans

Suggestions

1. Try to make sharper statements about what competition looks like
 - Focus on the firm rather than consumer
 - Have an underlying model in mind
2. Consider alternative explanations for the results
 - Why else might prices change over time?
 - Can the data identify relationship pricing?

Summary

- A pair of interesting papers that are first-movers in their respective areas
- Highly policy relevant
- Read them!