



BEST PRACTICES FOR MAKING FINANCIAL SERVICES ACCESSIBLE TO LOW-INCOME AND MARGINALIZED POPULATIONS

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Introduction

This paper presents a summary of best practices for providing accessible financial services to low income and marginalized individuals and communities (including microfinance, financial/economic literacy, and financial products & services tailored to the needs of low-income members). These best practices have been gleaned from the North American and Norwegian experience.

The research was conducted for VanCity Savings Credit Union and draws on the experiences and expertise of practitioners in the field. In the spirit of sharing knowledge gleaned from the community, VanCity is making this research available to research participants, with thanks.

Research Methodology

1. A request for lessons learned and best practices that have emerged from making financial services accessible for low income and marginalized populations in first world contexts was posted on two international microfinance virtual discussion groups: devfinance & MicrofinancePractice. Responses came from:
 - Heather McLean, Opportunity International in Australia
 - James R. Wells, Jr., Innovative Solutions in Electronic Banking, Internet Commerce & Payment Systems
 - Richenda Van Leeuwen, Executive Director of the Trickle Up Program in the United States
 - Unni Beate Sekkesaeter, Doctoral Researcher/Project Manager-Microfinance for Network Credit to Refugees and Immigrants, Norway
2. E-mail contact made with:
 - Karen Kerk, Self-Employment Development Initiative, Ontario
 - Russ Rothney, Assiniboine Credit Union, Winnipeg
3. Phone Interviews with:
 - a. Vicki Scully, VanCity
 - b. Gail Scott, Enterprise Development Advisor, at PEACH (Partners for Economic & Community Help) who operate in the Downtown Eastside
 - c. Assistant General Manager of Four Corners Bank
 - d. Yvonne Peters Coordinator of the Drop In which is an outreach program for the Developmental Disability Association
 - e. Sheena Campbell, Community Developer at the Vancouver Coastal Health Authority

Research questions:

1. What are the characteristics of people who are low income and marginalized? (This was asked primarily of the interviews conducted in Vancouver).
2. What best practices/strategies have worked in your program that make financial services more accessible to low income and marginalized populations?

4. Literature Reviewed:

Calmeadow Metrofund: A Canadian Experiment in Sustainable Microfinance by Cheryl Frankiewicz, April 2001

Calmeadow Nova Scotia written by Nic Friendly & Robert Wright, January 2001

Evaluation of Hordaland Network Credit: A microfinance programme in Hordaland County, Norway - Part of the "Equal Credit" project under the EU Receipt II programme, Unni Beate Sekkesaeter, April 2002

Micro-finance: An Economic Participation Option for Poor, Working Poor and Unemployed in Canada, presented by Self-Employment Development Initiatives (SEDI) & Women and rural Economic Development (WRED)

The Role Of Peer Group Lending, Social Capital And Neighborhood Characteristics in determining the success of the Small-Scale Self-employed, Rafael Gomez Centre for Industrial Relations University of Toronto. Paper presented at the International Conference "Local Economic Development: Social Capital and Productive Networks", Mexico City, January 18-19, 1999.

Research Results

Definitions

Best Practices is a body of knowledge which expands and evolves as practitioners try new approaches to design and deliver services. These new approaches incorporate; the learning from the successes and failures of product and service delivery, and also feedback and input from clients.

Low income is an economic condition in which people lack sufficient income to obtain certain minimal levels of health services, food, housing, clothing, and education generally recognized as necessary to ensure an adequate standard of living. What is considered adequate, however, depends on the average standard of living in a particular society. (Encarta Encyclopedia, 1996)

The low-income concept applies to economic families (all persons related by blood, marriage or adoption and living together) and unattached individuals 15 years and over (persons living alone or with non-relatives). All members of an economic family share the family's income status. It is on this basis that the incidence of low income in the population is calculated. (Statistics Canada, 1996)

1995 Income Status	Vancouver Population: 1,802,400
Low Income	419,240
Other	1,383,160
Incidence of low income	23.3%

Source: 1996 Census, Statistics Canada

Characteristics of low income and marginalized populations in Canada:

1. Poor health. *Unemployment, underemployment, stressful or unsafe work are associated with poorer health. A number of recent studies show that limited options and poor coping skills for dealing with stress increase vulnerability to a range of diseases through pathways that involve the immune and hormonal systems.* Health Canada Web Page
2. Medicated either with prescription or non-prescription drugs
3. Low education level
4. Barely to functionally literate. *International Adult Literacy Survey (IALS), a seven-country comparative study of adult literacy, defines literacy as: "Using printed and written information to function in society, to achieve one's goals, and to develop one's knowledge and potential." This is a grade 8 level within the Canadian school system.*
5. Single mothers
6. May have a physical or developmental disability
7. Unemployed, underemployed.
8. Receiving social assistance
9. Transient

Best Practices

Market Penetration

1. Leverage core competencies of different agencies to reach out to specific populations. This would mean partnering with different agencies that work with specific populations which are vulnerable like single mothers, refugees, very recent immigrants, etc.
2. Seek out agencies who are already working with segments of the population who are unwilling or unable to access regular financial services. They have gained the trust of the segmented population because they offer culturally and linguistically appropriate services to potential and actual entrepreneurs, for instance business training in Spanish.
3. In selecting a partner agency, one of the criteria should include a commitment toward the entrepreneur, which is stated in the mission and is not just due to funding availability.
4. Recruit staff from the population you desire to service to function as "bridge-builders". Involve these new recruits in the development and in the adaptation of the programme. Seek people with a certain understanding of small business development, and as importantly, people skills!
5. Know your target customer. The question of debt is not culturally appropriate for some cultures. Developing marketing material to sell the financial products needs to take this into consideration with some populations.
6. Pay attention to the needs and wishes of the client and never forget that community support is key.
7. Know the size of your market, which for the purpose of micro lending is meant to be those individuals who have the will, the need and the personal "capacity" to take on debt.
8. Marketing financial services for vulnerable populations is most effective through word of mouth, partner organizations and community groups working with the population the service is targeting. Promotional material has to explicitly describe the lending technology and the criteria for accessing the financial services.

Non-Financial Services

9. Financial literacy which covers savings, assets, debt, credit, budgeting etc and Business Planning must be participatory and based in the experience of the learners. Mainstream training needs to be tailored to the specific low income and marginalized population that is being targeted if it is to have high impact. Formal training seminars are less successful than small group meetings.
10. Use business plan formats in people's own language (if needed) to get the thinking/exploring process going.
11. The combination of holistic services for entrepreneurs addressing all their issues, both business and personal, is vital to success.

Financial Products

12. Financial product development needs to include feedback and input from the low income and marginalized populations you wish to service. Let the customers participate! This is one means to build customer loyalty because they feel you are really listening to them when you have dialogue and incorporate their input into the product development. Develop a customer satisfaction feedback mechanism that a customer can access whenever he or she wants to give feedback.
13. Character based loan assessments improve accessibility because often times low income and marginalized populations do not have a good credit history. Taking character into consideration opens more opportunities to reach this population.
14. In group lending, group formation takes a long time, but with a healthy group process, you will not have to do a lot of screening for loans. Through the peer group process you will soon find out who

- are serious and who are just coming for "quick money". Make the group formation process participative and includes conflict resolution.
15. Small amounts and short repayment periods for first time business loans minimize the feeling of being overwhelmed by the new client.
 16. Combine the best in credit technology with strategic community outreach so that the availability of loans to low income and marginalized populations is increased.
 17. Offer different loan products and different lending technologies for start-ups and for existing businesses. (Examples of lending technologies = peer lending and individual loans).
 18. Encourage savings as a financial product for low income and marginalized populations.
 - λ Using savings to finance business is a more desirable approach for some people.
 - λ Savings is a resource that becomes available to marginalized people to mitigate shocks or stress events like illness and the need for medication or a family crisis.
 - λ Savings accounts provide a safe place to deposit checks.
 19. Make available a line of credit or a micro personal loan when a "crisis" has emerged so that the client does not have to sell productive assets or liquidate their business. Low income and marginalized populations have little to no cushion or margin. When a crisis hits, they are forced to take drastic measures that can devastate their business. Lines of credit or micro loans are means to absorb the shock and allow for business as usual.
 20. Reward good customers with incentives. One example is offering a reduced interest rate in year 4 of a 5 year term if they make all their payments on time in the first 3 years. .
 21. Permit a \$0.00 balance. Marginalized populations live from check to check. And oftentimes there are a few days a month where they do not have any cash whatsoever. If their account is closed with a zero balance, they have no access to financial services.
 22. For clients who are in recovery and trying to go "clean", provide the option to have their suppliers be paid directly by the financial institution through a check so the client is not tempted to go off the wagon.

Other

23. Make systems as simple as possible. All written material need to explain things in the simplest terms. Long applications are not effective for this population, whether for opening an account or accessing a micro loan.
24. Requirements for ID need to be appropriate for the population you are working with whether they are new immigrants, unemployed or on social assistance. Taking a picture of the potential new client, and having them get it signed and stamped by their welfare worker is one way to overcome this barrier. Many marginalized people are transient and their ID is often stolen. When they receive their social service or disability check, they need a safe place to deposit it. Not having current ID can prohibit them from accessing this service.
25. The low self-esteem of marginalized populations requires a specific approach in customer services. For many in this population, it takes great courage to go into a financial institution to even ask about services. Make the experience welcoming by ensuring the physical environment is low key and ensure that all procedures are explained in a cheerful manner and with great patience.
26. All levels of personnel are informed of Accessibility policies and receive customer service training for marginalized and low-income populations. Oftentimes the manager or supervisor may know of the new policies and receive training, but the front-end staff does not. This makes it very embarrassing for the potential new client when they ask about a service they heard about and then are contradicted by the teller who says that it does not exist.

27. The financial institution offering loans to people on social assistance needs to be in communication with case workers or the client will be penalized and be cut off social assistance. When starting a business, it generally takes 2 years before a business starts to make enough of a profit to break even and provide enough income to support a small family. Without the social assistance, an individual could not be in business.

Conclusion

Accessing financial services is much more than credit. The international microfinance industry today has emerged out of the microcredit programs for productive purposes with three lending technologies – community banking, solidarity group lending and individual lending. As clients began to become accustomed to the culture of credit, and their productive enterprises stabilized and/or grew, clients demanded other financial services. Insurance, savings products, personal loans, education loans so kids could go to school, home improvement loans, etc. have become common products on the international microfinance radar screen. This was unheard of 20 years ago because the best practice that was espoused dictated: To ensure repayment, loan usage is to be strictly for productive purposes. As the low income and marginalized populations in Canada access financial services they too are going to begin to demand a diverse portfolio of products and services as they economically stabilize. Products like school and car loans, or home improvement and lines of credits and even mortgages are all possibilities.

Low income and marginalized populations need access to financial services. Just to have a bank account where one can deposit ones monthly disability or welfare check for safekeeping and be able to take out money when needed increases personal security. Serving the low income and marginalized populations requires lots of flexibility. The more vulnerable the population, the more agile the services need to be to respond to customers needs. It is therefore necessary to define explicitly the profile of the most marginalized population that any financial institution or lending agency is going to service.

Penetrating this market requires specialized staff, simpler loan application forms, increased time per customer and this all impacts on the efficiency and the sustainability of an institution. Alternatives like partnering with community based organizations who do the front end work because they have the experience with the population in storefront operations may be the answer. Introducing technology like smart cards are also innovations to be investigated.

In Vancouver alone there are 419,240 adults in the low-income bracket. Penetrating this market in all its diversity with an effective “Accessibility” strategy is a challenge to be met within the financial service industry.