CSAs as a Bridge to Inclusion in the Financial System

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Despite having a developed economy and financial system, there are problems of width and depth when it comes to financial inclusion in the United States.

- Populations on society’s margins are less likely to own basic financial products.
  - 20% to 25% from lower incomes, lower educational backgrounds, and racial / ethnic minority groups do not own basic checking accounts (FDIC, 2016).
  - 32% do not have a savings account.

- Too few households have access to credit, own diverse portfolios, or are able to accumulate wealth.
Children’s Savings Accounts (CSAs) may provide a way to widen and deepen financial inclusion.

CSAs can be designed as universal and automatic, ensuring that everyone has a financial product for use across the life course (Beverly et al. 2016; Huang et al. 2016).

Once acquired, CSAs have the potential to deepen financial inclusion by facilitating access to credit, diversifying asset portfolios, and accumulating wealth.

- Take-up of savings accounts in the financial system:
  - Coincides with or precedes the acquisition of stocks and investment accounts (Friedline et al. 2014).
  - Is associated with accessing lower-cost, secured debt and protecting against high-cost, unsecured debt (Friedline & Freeman, 2016).
For this potential to be realized, we need to consider how a CSA can facilitate linkages into and complement the existing (and imperfect) financial system.

The same ‘stickiness’ that can keep a person connected to their CSA can also prevent them from moving to a different bank where they might receive better services.

The financial system is spatially arranged, with varying degrees of access in communities across the US.

- Especially for lower-income individuals, the densities of financial services in the community in which a person lives relate to bank account ownership, credit access, accumulated assets (Friedline & Despard, 2016; Friedline & Kepple, 2016).
Communities have Unequal Access to the Financial System
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Can CSAs provide a bridge to the financial system and help to overcome the spatial inequality in communities’ access to financial services?

If CSAs are to help widen and deepen financial inclusion by interacting with the financial system, there are several questions to consider:

- How can CSAs interface with the financial system?
- What will consumers experience? And can the systems and their interface be responsive to consumers’ needs?
- What are potential unintended consequences of an interface between CSAs and the financial system?
- What is the role for technology (e.g., internet and mobile banking, fintech, etc.)?
- What are the roles of government, regulatory agencies, financial services like banks and credit unions, and nonprofit/community agencies?
References


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