

Panel 3—Question and Answer

Female Speaker:

Part of my job here, one of the areas that I did research in, was looking at the sub-prime market and thinking about -- kind of applying a behavioral economic lens to what was happening in sub-primes before the bust. And looking at behavioral economics and thinking about that, one of the things that we really concluded at the Joint Center was that neutral education wasn't enough and that people really turn to a trusted advisor. And a lot of times in the mortgage market that would be turning to a broker where they might or might not get good advice. So we know that the role of trusted advisors and the role of helping a consumer make the decision is really critical.

So my question for the panel is to explore this question about how do we help consumers make good decisions. Is it in other countries you see this real uptake of agents that are selling the products. You know, is it the agent's role to help to educate the consumer? If it's not the agent's role, whose role is it to educate consumers and how might that be brought in line with the development of these new technologies?

Male Speaker:

I'll take the agent question for 200...

[laughter]

The agent model is the way, it's the only way, to get to distributing equal opportunity. Again, when we think of retail banking, we can have a room bigger than this one full of bankers and not one of them will tell you that your bank teller's sell product. They tell you that they do consultative advice. And, you know, they open accounts, they do transactions, but nobody is thinking of selling.

Now, on the other hand, you talk to retailers or you talk to mobile operators, and they're all about selling. It's about turning the abstract into something that is tangible. So, you know, when I go into a store and buy a box of Tide, I get, you know, the packaging, how it's being presented, the price, everything is encapsulated, and I think that's one of the benefits of -- without having to deal with building new branches and certifying them or whatnot -- being able to leverage retailers is the only way to go. World Bank, CGAP, has documented extensively different models, whether it's in South America, Africa, you name it. We think that the role, however, is not just the retailer and the agent but ultimately financial institutions and regulators. And what it's going to force is as we started thinking, oh, how do you regulate ATMs, cordless cell networks so on and so forth, we now need to start thinking, what's a good way without forgetting that transactions, that retail have to go fast, have to be simple. You can't put the same rules that we apply to a branch back in 1950, apply it to a Wal-Mart store. It has to be a multiple entities converging, FI [spelled phonetically], retailer and any other type of entity that is affiliated with that [unintelligible].

Female Speaker:

Great. Does anyone else want to jump in?

Male Speaker:

Yeah. The perspective that we take is that we think that people educate people, right? And so if you look at the amount of information and data that's out there, it's non-consumable right now. And to be able to actually digest it and turn it into knowledge is way too much for a limited group of enterprises or, you know, companies to do. So, you know, we are of the opinion that if you get enough people out there who can filter the information and deliver insight out of all that information and share it with other people like them, that's the only way you're really going to get to a point of total information conversion into knowledge.

Male Speaker:

I would just say that you have to think about who has an interest in teaching what they have an interest in teaching, right? So to choose a couple of examples, employers have a vested interest in teaching their workforce, at least domestically, to use direct deposit and get away from being in banks. There's a clear, quantifiable financial benefit for that. Think about the Armed Services. I don't have figures to back this up but I'm pretty sure I'm right, they have a tremendous readiness problem with troops that are in financial crisis and so they have a vested interest in trying to address that whatever financial crisis may be. If we think about USAA, I don't know if this is entirely accurate but to the extent of having members photographing their own checks is more efficient than having those members mail checks into a service center where they have to be processed, then USAA has an interest in educating its members about how to do that, why to do that, when to do that and so forth.

So I don't know that that gets us to fully informed consumers, but I think it's useful to remember there are different stakeholders that share an interest in this and to bring us back to mobile, I'm not sure that employers have known whether there is an effective way to persuade their employees of the benefits of being banked, or banked in some sense, and using direct deposit when the choice was work with a nonprofit partner who wants to talk about gathering people into groups and having a two-hour workshop, you know, that doesn't look very scalable. When if there's now a mobile application they can put on their own intranet or make widely available to their workforce and, over time, that workforce is accustomed to getting apps on their smart phones, you know, that feels like something that you could see an HR person say, "Yeah, what's it cost to do that? I can do that." So there may be an opportunity that's new by phone.

Female Speaker:

I would just add that I think we really need to be talking about this topic in terms of deep integration. That if we continue to talk about financial education or financial literacy or financial information that's separate from the stuff that people do every day, that there's going to continue to be a disconnect. That the more we can embed information into the way in which products are designed and delivered, the way in which we communicate with customers, the way in which people communicate with each other, I think we're going to be more effective all around because of the way adults tend to learn.

Tim talked about, essentially, what are teachable moments or what are important moments in time, you know, what are also relevant moment, right? So don't talk to someone about home ownership when they've got \$40,000 of, you know, bills to pay. You know, being relevant, being timely, being actionable, needing someone to take action immediately as opposed to talking about some hypothetical, and then finding ways for it to be ongoing. And I think those elements in many ways mobile is a real opportunity because it offers immediacy, timeliness, actionability, all the things that we think make for effective interactions with consumers.

Female Speaker:

Great. Well, I would like to give you all a chance to speak up. It looks like Jim Van Dyke might have a question in the back.

Jim Van Dyke:

Thanks. We're going to be -- we're talking with several organizations about supporting a very quantitative study about cash usage, big blind spot particularly resilient with under-served audience, first in the U.S., and it will include checks and electronic payments try to -- first with merchants and then with consumers. My question is to people on the panel, is there -- can you think of anything you can imagine that will be most helpful to not know about maybe merchants policies regarding cash, check as it relates to electronic payments, mobile, whatever, but especially the blind spot of cash as well as consumer behavior and attitude. What would you like us to know that we don't know today?

Female Speaker:

Great. Someone want to jump in on that?

Male Speaker:

I would add that intuitively every time that we see spending that doesn't make sense, the logical part, it actually -- I will actually counter that everything is logical. And so any questions that are able to shed some light -- I'll give you a quick example. So, for example, you say somebody who doesn't have savings and so you don't even have \$2,000 in case you get sick, or you don't have any kind of long-term retirement plan, the reason why that happens is because you end up having a perception that, hey, I'm just living day-to-day. So if you're fighting a war in Afghanistan, you're not going to -- you don't know if you're going to come home or not, you all of a sudden you say, "Hey, I don't care about what's going on stateside; I just need to worry about today, tomorrow."

Well, for a lot of people in certain parts of Detroit, Atlanta, New York City, that's what's happening so we really need to start getting into what are some of the real time transaction costs that are keeping people from really looking at more of a medium term on the horizon. Those are the type of questions that we would like to see. So when I don't pay my electric bill today, do I not pay it because I know I got 30 days, 60 days before it gets disconnected, and so it's that even though I know my credit report might get shot. Who cares about my credit report because I care about having electricity today.

Female Speaker:
Great. Another question?

Kathryn Reimann:

Thank you. I'm Kathryn Reimann from Citi, and I just wanted to pick up on a comment that Jennifer made earlier that I think is something of a segue between this conversation and what should policymakers be looking for. Jennifer, you said that large banks were basically taking a defensive approach to mobile banking, and I'm not sure if you understand how interesting and apt that terminology is because one of the concerns that large banks face is that we have obligations really in excess of what you read in the law to know customers and also to look at transactions. And I think there's an uncertainty right now in terms of how, in the examination space, which is where the standards that we live by get made, mobile banking, particularly acquisition and oversight of transactions, is going to be dealt with, and I think that you will see change when you see more certainty in that space.

Female Speaker:
Jennifer, do you want to speak?

Female Speaker:

I'm really glad you brought that up because I think it will be an important topic for the next couple of panels that are coming. But we are in an interesting time in that in this country we seem to be saying we value regulated institutions, but we're making it harder than ever for regulated institutions to reach deeper, serve more broadly. There's an inherent tension there and it's -- there's important arguments on either side of the tension. We all understand why that tension exists. But we're having sort of a parallel conversation if you will when we think about the mortgage markets, for instance or Wall Street and getting rid of the shadow banking system, right, those unregulated people and making them more regulated and transparent.

But the same could be said of a whole range of non-bank financial services provided in the consumer finance sector, but we haven't really taken that framework for the conversation and brought it over here. And I think that what many of us are saying is that there are many things to borrow from the non-bank sector but how can we do it in a way that's going to be responsible, transparent, bring all the needed consumer protections? And so I think you make a really important point.

Male Speaker:

And when it comes to regulation, if you had asked that question, I mean, three years ago, what's wrong with this country? We have 50 different state regulators. We got, you know -- within the federal ones, we have four or five, and we have all these law enforcement agencies. How can we get anything done? And three years later after going international, I tell you we live in an amazing country.

[laughter]

I mean, we should all be extremely proud of the country we live in and the rule of law and how simple and efficient it is despite everything that we don't realize. But it takes some comparisons so, for example, we can get our entire Constitution in one-two pages, one page if you use the right font --

[laughter]

-- and yet in most countries, and some have a volume of 500 pages, and the impact of that is that in places, for example, Mexico, that if you don't -- if that which you want to do, that new program that you [unintelligible], whatever it is, if it has to do with money, if it's not explicitly authorized in the regulation, you can't do it. Oh by the way, the [unintelligible] for that is you go to jail. And so, therefore, you're not able to get the types of innovation and traction.

And so, I know that after 2008, 2009 when we start thinking about, hey, let things be. Let's do what we did in the times of the dot com e-commerce world of [unintelligible] related. Let's catch up with it. That 1997 Federal Reserve paper on store value is sort of like we don't know, let's let it be until we get to understand it, is it encapsulates what our legal system has, the approach that it has had. But after 2008, 2009 we get very nervous but the reality is that -- I don't know about you guys -- but I would gladly take the pain of this recession that we have and keep the five percent growth year over year for two hundred years. And that's why we're the nation we are, so...

Female Speaker:

Great. We have time for one more question if there's someone in the audience? No? Does anyone else want to reflect on looking internationally thinking about how mobile has developed, the kind of tension between, you know, financial institutions and non-bank or other types of providers that are really leading internationally and anything else you want to reflect on with regards to how we might see that roll out in the U.S.?

Female Speaker:

I would just say that, you know, before the last two years, it was easier to see how, in this country, maybe the Telco could become the bank. I love that the first question was from someone at the FDIC earlier this morning asking about well, what if the Telco were the bank, what regs could be poured over to make sure that their income reduction was covered, et cetera. And in this environment, it's just so much harder to see that happening from a regulatory perspective. Forget about the market place and who's willing to partner with whom.

But I think that as we grapple with these issues, it's really important to think about where are the consumers that we want to serve? What's the best and most effective way to reach them? How do they already do their business? What need are we really filling? And start from there and then work backwards to say, "Well, if it is a retailer, if it is a Telco or if it is someone else, what can we do to make sure they can be part of the mix but also that we're paying attention so that consumers get the protection that they deserve."

Male Speaker:

I think that, borrowing from the international, we don't have huge monopolies both on the banking side or on the outcome side. So partnerships is simply the way that it has worked and that we believe, at least, that it's going to go. If you asked, and this is complete conjecture, but I kind of believe that if you were to ask Jane Thompson [spelled phonetically] at Wal-Mart, you know, "What did you lose by not getting the charter?" she probably would tell you that the bulk of what they wanted to do and wanted to accomplish, they were able to do without the charter. And if you said, "Hey, how many of the headaches did you save by not being a bank?"

[laughter]

She'd probably tell you that a vast majority of the headaches she didn't have to get into. So retailers, Telco operators and others, they don't want to be banks. And that really allows us to think of what are the strengths? So if I'm a mobile operator, what are my strengths? If I'm a retailer, what are my strengths? If I'm the bank, I think that what you're going to see is not that new models are going to displace banks; I think that banks are morph into a different type of role.

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