FINANCIAL WELL-BEING & ONLINE BANKING

To what extent does the use of online banking services and the internet, impact financial well-being for low- to moderate-income (LMI) households?

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CONTEXT

• Lack of empirical evidence that financial literacy programs improve financial outcomes (Fernades et al, 2014; Hogarth, Hilgert, 2003)
• Increasing inequality (Bricker, 2017)
• Increase in online services (Meola, 2019)
• Persistent gap for internet access for low- to moderate-income populations (HUD, 2016; Rideout, Katz, 2016)
• Prevalence of non-traditional banking services and closing of bank branches in LMI areas (Cohen, et al, 2015; Ding, Reid, 2019)
• Decreasing rates of being unbanked (FDIC, 2019)

Previous Research

• Who has access to the internet?
• Where do people have access to the internet?
• How can we improve "financial outcomes"?
DEFINING TERMS

- **LMI** - Low-income is considered anyone who makes 50% or below the area median income (AMI) and moderate-income individuals make up to 80% AMI – for the purpose of this paper and the limitations of data, LMI will be any household with an annual income of $35,000 or less.

- 44% of adults who have household incomes $30,000 a year do not have broadband service (Anderson, Kumar, 2019).

- **Financial outcomes** will be defined by the Financial Well-Being, which is as CFPB states, “having control over day-to-day and month-to-month finances, having the ability to absorb financial shock, being on track to meet financial goals, and being able to make choices that allow a person to enjoy life” (pg. 13, 2016).

- **Online banking** is a broad term that encompasses the activities of traditional financial institutions that are available online which includes mobile phone applications. Other terms for online banking include e-banking, mobile banking, and virtual banking (Pikkarainen, 2004).
Decreased level of use of online banking of low- to moderate-income households

Decreased financial well-being score for low- to moderate-income households
DATA

• 2018 National Financial Capability Study which is conducted by ARC Research funded by the United States Financial Industry Regulatory Authority (FINRA)
  • The State-by-State survey was conducted online from June through October 2018 among a nationally-representative sample of 27,091 American Adults, reaching approximately 500 individuals per state, plus the District of Columbia, with oversamples of 1,250 in Oregon and Washington (FINRA)
  • Survey data available for 2018, 2015, 2012, 2009 – 2018 is the first year to include financial well-being score, but there are questions in previous years that can create a pseudo-FWB score (Urban, 2019)

Limitations of Data
• Data includes states but not census tract, zip code, or city/urban designation
• Income in increments of $10,000
  • $15,000 or less
  • $15,000 - $25,000
  • $25,000- $35,000
  • Etc.
VARIABLES

Dependent Variable – Financial Well-Being Score

The Financial Well-Being score is constructed using Item Response Theory (IRT) methods based on the responses to the Financial Well-Being questions. The negative pole of financial well-being is total loss of autonomy, stability, and freedom of choice when it comes to finances.

Independent Variable – Use of online banking

- Use of the internet and online banking
  - Have taken on a work assignment through a website or mobile app
  - How often do you access your checking or savings account in the following ways? (among banked people)
    - Online banking with a laptop or desktop computer
    - Mobile banking with text messaging, mobile app, or internet browser or email on a mobile phone


