



EUROPEAN CENTRAL BANK

EUROSYSTEM

Working Paper Series

Miguel Ampudia, Michael Ehrmann

Financial inclusion:
what's it worth?



No 1990 / January 2017

Household Finance and Consumption Network (HFCN)

This paper contains research conducted within the Household Finance and Consumption Network (HFCN). The HFCN consists of survey specialists, statisticians and economists from the ECB, the national central banks of the Eurosystem and a number of national statistical institutes.

The HFCN is chaired by Oreste Tristani (ECB) and Carlos Sánchez Muñoz (ECB). Michael Haliassos (Goethe University Frankfurt), Tullio Jappelli (University of Naples Federico II), Arthur Kennickell (Federal Reserve Board) and Peter Tufano (University of Oxford) and act as external consultants, and Sébastien Pérez Duarte (ECB) and Jiri Slacalek (ECB) as Secretaries.

The HFCN collects household-level data on households' finances and consumption in the euro area through a harmonised survey. The HFCN aims at studying in depth the micro-level structural information on euro area households' assets and liabilities. The objectives of the network are:

- 1) understanding economic behaviour of individual households, developments in aggregate variables and the interactions between the two;
- 2) evaluating the impact of shocks, policies and institutional changes on household portfolios and other variables;
- 3) understanding the implications of heterogeneity for aggregate variables;
- 4) estimating choices of different households and their reaction to economic shocks;
- 5) building and calibrating realistic economic models incorporating heterogeneous agents;
- 6) gaining insights into issues such as monetary policy transmission and financial stability.

The refereeing process of this paper has been co-ordinated by a team composed of Oreste Tristani (ECB), Pirmin Fessler (Oesterreichische Nationalbank), Michalis Haliassos (Goethe University Frankfurt), Tullio Jappelli (University of Naples Federico II), Sébastien Pérez-Duarte (ECB), Jiri Slacalek (ECB), Federica Teppa (De Nederlandsche Bank), Peter Tufano (Oxford University) and Philip Vermeulen (ECB).

The paper is released in order to make the results of HFCN research generally available, in preliminary form, to encourage comments and suggestions prior to final publication. The views expressed in the paper are the author's own and do not necessarily reflect those of the ESCB.

Abstract

This paper studies the determinants of being unbanked in the euro area and the United States as well as the effects of being unbanked on wealth accumulation. Based on household-level data from the euro area Household Finance and Consumption Survey and the U.S. Survey of Consumer Finance, it first documents that there are, respectively, 3.6% and 7.5% of unbanked households in the two economies. Low-income households, unemployed households and those with a poor education are the most likely to be affected, and remarkably more so in the United States than in the euro area. At the same time, there is a role for government policies in fostering financial inclusion. Using a propensity score matching approach to estimate the effects of being unbanked, it is found that banked households report substantially higher net wealth than their unbanked counterparts, with a gap of around €74,000 for the euro area and \$42,000 for the United States. A potential reason for this wealth difference is that banked households are considerably more likely to accumulate wealth via ownership of their main residence.

JEL Codes: G21, G28, D14

Keywords: financial inclusion, household finance, propensity score matching.

Non-technical summary

The access of households to financial services, a long-standing topic in policy debates in emerging markets, has also been identified as important in advanced economies, especially after the 2008 financial crisis, which even saw many upper-income households becoming unbanked. Without access to saving and borrowing instruments via formal financial institutions, these households are prone to be at a disadvantage economically, as they cannot smooth consumption as easily, and face more difficulties in accumulating wealth.

This paper provides new evidence about the importance of financial inclusion in advanced economies, about the determinants of being unbanked, and about its effects. It uses data on household finances for 14 euro area countries, taken from the 2009/2010 Household Finance and Consumption Survey (HFCS), as well as comparable data from the 2010 U.S. Survey of Consumer Finance (SCF). While the share of unbanked households in the euro area is, at 3.6%, substantially below the number in the United States (7.5%), there is substantial variation across countries and over different household groups. Like in the United States, it is particularly the low-income and the poorly educated households that remain outside the financial system – however, the more disadvantaged households in the United States are substantially more likely to be unbanked than their counterparts in the euro area.

When studying the determinants of being unbanked, the cross-country dimension of the dataset allows further insights into the role of supply factors, and in addition enables us to investigate the effects of policies that are put in place to promote financial inclusion. In line with earlier studies, we find that the accessibility of financial institutions (i.e. the supply side) matters, as well as government policies (encouraging recipients of transfer payments to open bank accounts increases the probability of owning a bank account). However, in contrast to the earlier results, we do not find that the likelihood of being unbanked falls if the government requires its banks to offer a low-fee account to low-income clients.

The last part of the paper provides estimates of the effects of being unbanked. We find that banked households report substantially higher net wealth than their unbanked counterparts, with a gap of around €74,000 and \$42,000 in the euro area and the United States, respectively. One reason for this wealth difference is that banked households are considerably more likely to accumulate wealth via ownership of their main residence.

These results provide support for the notion that financial inclusion is an important issue also in advanced economies. While they show that being unbanked remains a reality for a non-trivial number of households in the euro area as well as the United States, and that this puts these households at a considerable economic disadvantage, our findings also show that public policies such as paying transfers through bank accounts can mitigate the issue to some extent.

1. Introduction

The access of households to financial services, a long-standing topic in policy debates in emerging markets (e.g., World Bank, 2008; World Bank, 2014), has also been identified as important in advanced economies. Demirgüç-Kunt et al. (2015) reveals that 6% of adults in high-income economies remain unbanked in 2014. In December 2015, the Obama administration launched an initiative to boost access to banking in the United States, an issue that has become more pressing after the 2008 financial crisis, which even saw many upper-income households becoming unbanked.¹

Without access to saving and borrowing instruments via formal financial institutions, these households are prone to be at a disadvantage economically, as they cannot smooth consumption as easily, and face more difficulties in accumulating wealth. While there are workarounds, these tend to be much less efficient and in particular much more costly. Fellowes and Mabanta (2008) provide evidence that the unbanked in the United States pay around \$40,000 higher fees for financial services (such as cashing checks) over an adult working life, additional expenditures that cannot be used for consumption, debt repayment, or the accumulation of wealth.

This paper provides new evidence about the importance of financial inclusion in advanced economies, about the determinants of being unbanked, and about its effects. It uses data on household finances for 14 euro area countries, taken from the 2009/2010 Household Finance and Consumption Survey (HFCS), as well as comparable data from the 2010 U.S. Survey of Consumer Finance (SCF). While the share of unbanked households in the euro area is, at 3.6%, substantially below the number in the United States (7.5%), there is substantial variation across countries and over different household groups. Like in the United States, it is particularly the low-income and the poorly educated households that remain outside the financial system – however, the more disadvantaged households in the United States are substantially more likely to be unbanked than their counterparts in the euro area.

When studying the determinants of being unbanked, the cross-country dimension of the dataset allows further insights into the role of supply factors, and in addition enables us to investigate the effects of policies that are put in place to promote financial inclusion. Our results are consistent with those of the large cross-country study by Demirgüç-Kunt and Klapper (2013): We show that the accessibility of financial institutions (i.e. the supply side) matters, as the probability that a household is unbanked falls with the density of ATMs in a given country. As to the effect of government initiatives to promote financial inclusion, we find that encouraging recipients of transfer payments to open bank accounts increases the probability of owning a bank account by 6 percentage points (p.p.). This suggests that government policies can matter; however, in contrast to the earlier results, we do not find that the likelihood of being unbanked falls if the government requires its banks to offer a low-fee account to low-income clients.

The last part of the paper employs a propensity score matching approach to provide estimates of the effects of being unbanked. We find that banked households report substantially higher net wealth than their unbanked counterparts, with a gap of around €74,000 and \$42,000 in the euro area and the United States, respectively. One reason for

¹ See http://blogs.wsj.com/economics/2015/12/02/obama-administration-targets-unbanked-households-in-new-initiative/?mod=djemRTE_h and <http://www.wsj.com/news/articles/SB1000087239639044443504577601283142758856>

this wealth difference is that banked households are considerably more likely to accumulate wealth via ownership of their main residence.

These results provide support for the notion that financial inclusion is an important issue also in advanced economies. While they show that being unbanked remains a reality for a non-trivial number of households in the euro area as well as the United States, and that this puts these households at a considerable economic disadvantage, our findings also show that public policies such as paying transfers through bank accounts can mitigate the issue to some extent.

The paper is organized as follows. The second section provides an overview of the related literature. Section 3 discusses the methodology and data used in the analysis. Subsequently, we report our results with regard to the determinants of being unbanked, before we move on to study the likely effects in Section 5. A discussion of the conclusions and implications follows in section 6.

2. Related Literature

There are three main strands of the literature to which this paper relates, about i) the measurement and identification of financial inclusion, ii) its determinants, and iii) its effects.

With regard to *measurement*, the World Bank has been leading an impressive effort to assemble data about the extent to which households are unbanked globally. Demirgüç-Kunt and Klapper (2013) provide data for 148 countries and show that half of all adults globally did not have an account at a formal financial institution in 2011, with the majority of these living in developing countries. A more recent update (Demirgüç-Kunt et al., 2015) reports impressive progress, in the sense that the share of the unbanked stood at a considerably lower 38% in 2014, with substantial reductions in a number of developing countries.

These data allow studying the *determinants of being unbanked* across countries, including the effects of public policies. Beck et al. (2007) stress the importance of the quality of the institutional environment as a positive factor, and the cost of enforcing contracts and the degree of government ownership of banks as a negative factor. Demirgüç-Kunt et al. (2015) identify the important role of governments in fostering financial inclusion, e.g. by shifting the payment of government transfers from cash into accounts, and Allen et al. (2012) report that the existence of low-cost accounts as well as a reduction in documentation requirements when opening bank accounts help enabling the access to financial services. Another important factor that they identify is greater proximity to financial intermediaries, which could also be in line with Honohan's (2008) result that mobile phone penetration matters. More generally, levels of economic development and financial inclusion are highly correlated (Sarma and Pais 2011), suggesting that for more developed economies, we should generally expect fewer unbanked households.

Beyond these cross-country studies, variations over time in individual countries have also been used to identify the determinants of being unbanked. For instance, Burgess and Pande (2005) identify a state-led expansion of the banking sector in India as having led to greater financial inclusion of the rural poor. Aportela (1999) shows that the exogenous expansion of a Mexican savings institute, targeted to low-income people, increased financial inclusion and raised the savings rate of affected households. An alternative identification scheme is employed by Osili and Paulson (2008), who find that immigrants in the United States from countries with more effective institutions are more likely than other immigrants to have a

relationship with a bank. Based on the same identification approach, Rhine and Greene (2006) conclude that income, wealth and education are important determinants of being unbanked.

The dynamics of becoming unbanked in the United States has been analyzed by Rhine and Greene (2013), who find that families are significantly more likely to become unbanked when there is a decline in family income, loss of employment, or loss of health insurance coverage. In a related analysis, Campbell, Martinez-Jerez and Tufano (2012) show that involuntary bank account closures are more frequent in U.S. countries with lower wealth, lower education and higher unemployment. In addition, the paper reports that access to payday lending leads to higher rates of involuntary bank account closures, suggesting that the availability of “workarounds” is also a factor that determines the degree to which households are unbanked.

The third strand of the literature studies the *effects of financial inclusion*. Even though there are work-arounds for financially excluded households, like using friends and family as a source of borrowing (Banerjee and Duflo, 2007), having access to financial instruments opens more ample possibilities for a smoothing of consumption and investment in physical and human capital, thereby improving economic welfare, reducing income inequality and fostering economic growth (World Bank, 2008).²

Such positive effects have been shown in several studies that exploit randomized controlled experiments (Ashraf et al. 2006; Dupas and Robinson 2011, 2013). Honohan and King (2012) also identified a positive effect on income using micro data for sub-Saharan African households.

With most of the evidence relating to emerging markets, there are a few studies dealing with advanced economies. Bank deregulation in the United States, for instance, has been used to identify the effects of greater financial inclusion: Beck et al. (2010) find that this has led to more inclusive growth, boosting in particular the relatively low incomes, thereby narrowing the income distribution. Célerier and Matray (2014) also document a substantial effect of the banking deregulation on the share of unbanked households, along with an increase in savings rates. These studies, as well as Washington (2006) point to supply-side factors as important determinants of being unbanked, whereas other contributions like Bertrand et al. (2004) have highlighted the relevance of the demand side. In that regard, OECD (2013) stresses the importance of financial literacy – higher levels of financial knowledge are correlated with larger awareness of financial products, which is argued to be an important step in removing demand-side barriers to financial inclusion.

3. Data and Empirical Methodology

In this section, we outline our estimation methodology and the data we use for our empirical analysis.

3.1 Data

In order to conduct our analysis we use data from the HFCS and its U.S. equivalent, the

² Mehrotra and Yetman (2014) consider the effects of financial inclusion on monetary policy. They argue that with greater financial inclusion, households can more easily smooth their consumption, which in turn makes output volatility less costly, and enables central banks to focus more on maintaining price stability.

SCF. The HFCS provides ex-ante comparable data for 15 euro area countries.³ We discard the data for Finland (where households were not asked about their ownership of financial accounts, but a 100% participation rate was assumed). Effectively, our data cover therefore more than 50,000 households in Austria, Belgium, Cyprus, France, Germany, Greece, Italy, Luxembourg, Malta, the Netherlands, Slovakia, Slovenia, Spain and Portugal.

The HFCS contains information regarding socio-demographic variables, assets, liabilities, income and consumption for a sample of households that is representative both at the national and the euro area level. A set of population weights is provided in order to ensure the representativeness of the sample. Our calculations use these population weights.

Another important feature of the HFCS is that missing observations for all the variables that are necessary to construct wealth and income aggregates (i.e. questions that were not answered by the respondent households) are imputed five times – an issue that we will take into account when assessing the statistical significance of our estimates. The HFCS data refer to the year 2008 in Spain, to 2009 in Finland, Greece and the Netherlands, and to 2010 in all remaining countries.

For our estimates for the United States, we rely on the U.S. SCF.⁴ We use the 2010 wave to be as close as possible to the time of the HFCS. The SCF also provides population weights and five imputations, such that we can treat both surveys in the same way. For the United States, our sample contains nearly 6,500 households.

Table 1 here

While there are many different notions of financial inclusion, covering for instance the range of financial products that individuals can access, we will look at whether or not households are unbanked. We consider them to be unbanked if they neither hold checking accounts nor savings accounts with financial institutions. Note that this definition does not specify why the households are unbanked – they could have decided so themselves (because they do not require financial services, or because they somehow have an indirect access), or alternatively could lack access to the financial system, i.e. are excluded involuntarily.

Table 1 shows the share of unbanked households according to this definition. There are considerably fewer such households in the euro area than in the United States, with 3.6% versus 7.5%. However, these numbers mask a substantial heterogeneity in the euro area, where we find countries with less than 1% unbanked households (Austria, France and Germany), but also some with around 10% (Italy and Slovakia). The extreme case is the one of Greece, with more than 25% of households reporting not to have any financial accounts.

That number might seem implausible, and it cannot be excluded that there is some underreporting of account ownership. At the same time, there is anecdotal evidence that

³ For more details on the survey, see http://www.ecb.europa.eu/home/html/researcher_hfcn.en.html. The results from the first wave are described in detail in Household Finance and Consumption Network (2013a), and the most relevant methodological features of the survey are discussed in Household Finance and Consumption Network (2013b).

⁴ This dataset has been used in Hogarth et al. (2004) to identify the determinants of being unbanked. The number of unbanked households in this survey are in line with those reported by the Federal Insurance Deposit Corporation, 7.6% in 2009 and 8.2% in 2011 (FDIC 2014).

households in more distant areas in Greece tend to keep cash at home, rather than having bank deposits, as it is apparently perceived to be more convenient and there is little fear about theft. Still, it is useful to cross-check these data with the World Bank data underlying Demirgüç-Kunt and Klapper (2013). The World Bank data generally show larger shares of unbanked than the HFCS data, which could come from the fact that the HFCS measures access per household, whereas the World Bank data look at individual adults (and while an individual might not have access to an account herself, she might do so via the household). The figures for Greece are surprisingly close across the two datasets, with a share of 22% unbanked adults resulting in the 2011 World Bank data. Accordingly, we trust that the data for Greece are not completely off. Also, we are comforted by the fact that excluding Greece from the analysis does not alter our results qualitatively (see section 5.3 on robustness checks).

Looking at the distribution of unbanked households across different types of household characteristics, Table 1 shows that income is an important factor. This is the case in particular in the United States, where only 0.2% of households in the highest income quintile are unbanked, as opposed to 20% in the lowest quintile. But also in the euro area, and in nearly all individual countries (the Netherlands being the exception), we find that high-income households are substantially more likely to be banked than those with a low income.

At the same time, in some countries quite a few high-income households are unbanked. Unfortunately, it is difficult to provide clear reasons for this pattern, but we would like to note that at times also high-income households get financially excluded following an inability to pay, and that households might be voluntarily unbanked, provided they have workarounds. For instance, in many countries private operators can offer financial services at post offices (see CGAP 2009), and family ties might also offer an alternative.

Also the working status of the survey respondent matters⁵ – unemployed households and those categorized as “other not working” (i.e. students, permanently disabled, doing compulsory military service or equivalent social service, those fulfilling domestic tasks and other not working for pay) are more often unbanked. Finally, education also plays a role, with households with a less educated reference person having a much higher likelihood of being unbanked.

Of course, all of these statistics are unconditional, and the various characteristics we have looked at are bound to be correlated. We therefore explain the determinants of being unbanked in a more formal setting that conditions simultaneously on a number of factors.

3.2 Estimating the Determinants of Being Unbanked

To estimate the determinants of being unbanked, we define a variable that is equal to 1 if a household does not have a financial account, and equal to 0 otherwise. This binary variable is analyzed using a probit model, which we formulate for the euro area data as

$$\Pr(\mathbf{U}_i = 1 | x) = \Pr(\mathbf{U}_i^* > 0 | x) = \Phi(x) \quad (1)$$

$$\mathbf{U}_i^* = \beta_0^{EA} + \beta_1^{EA} x_i + \beta_2^{EA} x_c + \varepsilon_i \quad (2a)$$

⁵ For the HFCS data, this is the person who has been identified as the “financially knowledgeable person” in the household; for the U.S. SCF, this is the male in a couple or the older person in a same-sex couple

This model implies that the probability that household i is unbanked is a function of various determinants x , which affect a latent variable U_i^* . The determinants include the following household characteristics x_i : Age, age², the position of the household in the national income distribution, working status, education, marital status, the number of household members and gender.⁶

In addition, we include several country-specific determinants x_c : whether or not the government requires its banks to offer a low-fee account to low-income clients, whether or not the government encourages recipients of transfer payments to open bank accounts and the density of ATMs in a given country (measured as the number of ATMs per 1000km²). These three variables test for the effect of government policies to foster financial inclusion and the supply side of financial services. The data are sourced from CGAP (2009) and the IMF's Financial Access Survey (IMF, 2012).

As an alternative specification, we drop the country-specific determinants and instead include a set of country fixed effects. These control for factors that affect all households in a given country alike, but might differ across countries. Accordingly, they allow us to test to what extent our previous specification has accurately captured country effects. In this specification, the latent variable is modelled as

$$U_i^* = \beta_0^{EA} + \beta_1^{EA} x_i + \mu_c + \varepsilon_i. \quad (2b)$$

Finally, since we do not pool the data of the HFCS and the U.S. SCF (both surveys have their own sample design and population weights), we run a separate estimation for the U.S. data with the latent variable described as

$$U_i^* = \beta_0^{US} + \beta_1^{US} x_i + \varepsilon_i. \quad (2c)$$

In the U.S. estimation, we also control for ethnicity of the reference person, a variable that is not available for the European data.

When estimating the model, we use weights to account for the fact that an individual household does not always represent the same fraction of the overall population. Our weights readjust each observation to reflect its relative importance for the euro area (or the United States) as a whole. In so doing, we follow Faiella (2010) and Magee et al. (1998), which recommend the use of weights for two similar surveys, namely the Italian SHIW and the Canadian Survey of Consumer Finances. They argue that, in surveys with complex survey design, the use of weights protects against the omission of relevant information, which otherwise would have to be modelled explicitly by incorporating all available geographic and operational variables that determine sampling rates.

For the estimations with the euro area data, we cluster the standard errors by country.

3.3 Estimating the Effects of Being Unbanked

Table 2 provides summary statistics on our variables of interest, separately for banked and

⁶ In more detail, these variables are: the position of the household in the national income distribution (as measured by income quintile dummies, with the lowest group serving as benchmark group), working status (self-employed, unemployed, retired, other inactive, with the employed constituting the benchmark), education (completed secondary education, completed tertiary education, or primary education as benchmark group), marital status (married, divorced, or single as benchmark group), the number of household members, and gender (with females being the benchmark).

unbanked households. Mean net wealth of the unbanked households in the euro area amounts to 30% of the mean net wealth of the banked households; in the United States, the ratio stands at 5%. Also ownership of the household main residence differs sharply, with a gap of 8 p.p. in the euro area and nearly 50 p.p. in the United States. These differences are enormous – however, it is important to keep in mind that unbanked households have very different characteristics than banked households.

Table 2 here

As we are interested in estimating the effects of being unbanked, we need to ensure that our estimates are not driven by the different composition of the two groups. It is therefore crucial to appropriately define the comparator group. We will do this by means of a propensity score matching method.

If it is not possible to run randomized experiments, this methodology is often applied to estimate the effect of a “treatment” (like for instance a medical treatment, or being exposed to a certain policy measure; in our case, the treatment is being unbanked) on particular outcomes (like health, the desired effect of a policy initiative, or, in our case, wealth accumulation). In the absence of a random allocation of households to the treatment group, the methodology compares households that are as similar as possible along a large number of dimensions (like for instance income or education), such that it is reasonable to argue that they effectively only differ with regard to their treatment status, i.e. in our case whether they are unbanked or not. That way, differences in the relevant outcome between the matched households and the treated households can be attributed to the effect of being unbanked. As shown by Dehejia and Wahba (2002), in a setup like ours, this method succeeds in alleviating the bias due to systematic differences between the treated and comparison units.

Propensity score matching has been used in related applications that study wealth accumulation of households, or household finances more generally. Loibl et al. (2010) look at the effects of participation in savings programs on household savings, Morse (2011) test whether access to payday loans affects the likelihood of financial stress, and Seligman and Bose (2012) analyze whether employer-sponsored retirement savings plans change household wealth accumulation.

DuGoff et al. (2014) have developed a propensity score estimation strategy for complex surveys. We follow this strategy, given that the HFCS and the SCF both oversample wealthy households, and therefore require the use of population weights in estimations. The strategy implies that we include the population weight as a covariate when estimating a propensity score for each observation in our sample. The propensity score is the probability of being unbanked given a particular value for the observed characteristics x_i : $\Pr(\mathbf{U}_i = 1 | x_i) = \Phi(x_i)$, where x_i is defined as above, but now also contains the population weights.

We match each unbanked household with the five closest banked households, provided that the distance between their propensity scores is smaller than a particular threshold, which we set to be 0.01, or 1%, in our benchmark model. This matching method is usually called nearest neighbors matching with replacement and with a maximum distance (the caliper). This particular method is chosen because it provides a sample that is balanced across all

covariates. All our results are robust to increasing and decreasing the number of neighbors matched and the size of the caliper (see section 5.3).

Once the matching is done, we calculate the treatment effect by comparing the outcome variable between all the “treated” within the common support (i.e. all the unbanked households whose propensity score lies within the range of the propensity score distribution for the banked) and all the matched counterparts. Doing so, we follow DuGoff et al. (2014) and apply an adjusted weight which is given by the product between the population weight and the matching weight.

Our main outcome of interest is the household’s net wealth (and its decomposition). We also study the effect on whether the household owns its main residence. A clear concern regarding these outcomes, and most prominently for net wealth, is a possible endogeneity of the household’s decision to be unbanked. This will occur if having a bank account is related to some attitude or behavior of the household (such as thriftiness or willingness to save) which is in turn also related to its net wealth. If we cannot control for these characteristics when constructing our matching samples and in our regression, our estimates could be biased. As mentioned in the literature survey, the earlier related studies have used in particular two identification strategies to mitigate these concerns – either exogenous events that allow comparing the situation before and after the event (such as Ashraf et al. 2006; Dupas and Robinson 2011, 2013), or exogenous variation across households like the background of immigrants in the United States (Osili and Paulson 2008; Rhine and Greene 2006).

Due to the non-experimental cross-sectional nature of our data, the available approach to tackle this issue is trying to control for as many household characteristics as possible. For the case of the United States, apart from using socio-demographic and economic variables, we can control for a series of attitudinal/behavioral variables which can proxy for characteristics of the type mentioned before. In particular, we control for the extent to which households shop around when looking for financial investments, whether they make use of specialized software to help them with their financial decisions, whether the household is saving (or has saved) for a future major expense, the ability of the household to get money from friends and relatives in case of an emergency, the household’s saving habits, the reasons for saving and whether the household saved any money last year. The inclusion of these variables should assuage concerns about endogeneity. As no comparable variables are available for all the countries in the European data, we cannot include them in our model. However, we find that the results for the United States are qualitatively unchanged whether we include these variables or not.

4. Determinants of Being Unbanked

Let us now look into the determinants of being unbanked. A large literature has already studied this question, so we see our results as a cross-check of the earlier findings using new data. Table 3 provides three sets of results, according to equations (2a) to (2c). All coefficients are average marginal effects, for an easier interpretation of the findings.

Table 3 here

In line with the earlier results, we confirm that income is a particularly important factor for being unbanked. In the euro area, households in the top income quintile are around 7 p.p. more likely to have financial accounts than those in the lowest income group. For the United States, the gradient is substantially steeper – here, the income-rich are 16 p.p. more likely to be banked than the income-poor. This is consistent with the discussion of the summary statistics in Table 1, but it is important to note that the current results condition on other determinants.

Also the findings regarding working status in Table 1 are confirmed in Table 3: if the reference person is unemployed, a euro area household is 1 p.p. more likely to be unbanked than their employed counterparts. In the United States, this effect is stronger, at 4 p.p.. For the “other inactive” households (i.e. students, permanently disabled, doing compulsory military service or equivalent social service, those fulfilling domestic tasks and other not working for pay), we find a 1 p.p. difference in the euro area, and a drastic 17 p.p. difference in the United States.

A third important factor is education. Having finished high school or even college is associated with a higher prevalence of having an account – once more, much more so in the United States. The other household characteristics are either not significant in both the euro area and the United States, or they appear to be important in only one of the two cases. For the United States, we can also analyze the effect of ethnicity, which shows that white households are 5 p.p. less likely to be unbanked.

Moving on to the country-specific variables, our results are consistent with those of the large cross-country panel study by Demirgüç-Kunt and Klapper (2013).⁷ The likelihood that a household is unbanked falls with the density of ATMs in a given country, suggesting that the supply of bank services matters (this effect is only significant at the 10% level, though). Government policies also seem to be at play - in countries where the government encourages recipients of transfer payments to open bank accounts, 6 p.p. more households report to be banked. In contrast, and differently than earlier studies, we do not find that the likelihood of being unbanked falls if the government requires its banks to offer a low-fee account.

The inclusion of country-specific variables is important. If we were to exclude them entirely, i.e. base the estimates only on household characteristics, we would obtain a substantially smaller pseudo- R^2 of 0.13. Comparing the results with those of a model with country fixed effects (reported as the second set of results in Table 2), we see that the pseudo- R^2 increases only somewhat, suggesting that our variables have captured a large part of the country-specific variation.⁸ The country-fixed effects themselves can now be interpreted in a conditional manner (in contrast to the unconditional statistics reported in Table 1). Even when controlling for household characteristics, the countries with highest share of unbanked households are Cyprus, Greece and Slovakia. The country fixed effects report the difference relative to Germany. The only countries with relatively fewer unbanked households than Germany are Austria and France, whereas the difference is not statistically significant for Spain.

⁷ We also included other variables, like GDP per capita, and additional variables from CGAP (2009), namely a variable that captures disclosure requirements when opening an account, an index that captures how the practices of financial institutions get monitored, an index how issues arising from the monitoring get enforced, the existence of savings schemes and the existence of tax incentives to participate in savings schemes. None of these turned out to be important.

⁸ The number of observations is different in the two cases, because the country-specific variables in the first specification are not available for Cyprus and Malta.

These results are broadly in line with those of the earlier literature. Household characteristics like income, working status and education are relevant determinants, with the more disadvantaged households being more likely to be unbanked. In addition, supply factors are important, and there is a role for government policies in fostering financial inclusion.

What is remarkable, though, is the difference across the two economies, with relatively more disadvantaged households in the United States being dramatically more likely to be unbanked than their counterparts in the euro area. After having studied the determinants, we will now turn to analyzing the effects of being unbanked.

5. Effects of Being Unbanked

As described in Section 3, in order to study the effects of being unbanked, we first need to match the unbanked with a set of banked households. Table 4 reports the main summary statistics of our matching exercise.⁹

Table 4 here

For the euro area, our sample consists of 2,491 unbanked households and nearly all of them remain in the matched sample. These households are matched with 7,291 banked households. For the United States, the starting sample of unbanked households is smaller, reflecting the overall smaller sample size of the U.S. data. Of the 463 unbanked households, 449 remain in the matched sample, together with 1,133 banked households. The third column provides the matching results for the U.S. sample that has an extended set of covariates. As matching along more dimensions makes it harder to find comparable households, the resulting sample of matched households is somewhat smaller, leaving us with 439 unbanked, and 1,077 banked households.

Table 4 also contains information on the quality of the matching. First, it shows the pseudo R^2 that results from a probit estimation of the treatment status on all covariates, along with a p-value for the likelihood ratio tests that all covariates are jointly insignificant. These statistics are given for the full sample before matching, and for the sample of matched (banked and unbanked) households.

For the full samples, we obtain pseudo R^2 's in the order of 0.3, and the joint insignificance of the covariates is clearly rejected. This suggests that the covariates are important determinants of households' propensity to be unbanked. If the matching has been successful, however, this should no longer be the case for the matched sample (as here, the households should be very similar along all the covariates, and only differ with regard to their banking status). This does indeed seem to be the case – the pseudo R^2 's are very close to zero, and the joint insignificance of the regressors cannot be rejected.

Another test for the validity of the matching procedure is given by the median and mean standardized bias statistics in Table 4. To obtain these, we calculate the “bias” for each

⁹ Results are shown for the sample of households for which we observe the main dependent variable, net wealth. For some other dependent variables, there are some missing observations, leading to slightly different results of the matching procedure. While these are not shown for brevity, it is important to note that in all cases, the matching procedures successfully eliminate differences between the matched households along the covariates.

covariate, i.e. the difference in the mean of each covariate between the unbanked and the banked households (expressed as a percentage of the square root of the average of the sample variances in the treated and non-treated groups, using the formulae from Rosenbaum and Rubin (1985)). To get a single summary statistic, we subsequently calculate the median/mean of the biases. It is apparent that the difference between the banked and the unbanked is substantial in the unmatched sample (mean bias around 20% in the euro area, and around 40% in the United States), whereas it is very small (in the order of 1%-2%) in the matched sample.

Based on these statistics, we are confident that the matched sample allows estimating the effect of being unbanked on a set of economic outcomes. We will turn to this next.

5.1 Wealth accumulation

Following the matching of treated and untreated (i.e., unbanked and banked households), we can now move on to estimating the treatment effect. We first study the effects of being unbanked on wealth accumulation. Table 5 shows the corresponding results.

Table 5 here

In the euro area, households without a bank account have, on average, around €74,000 lower net wealth than similar households who do have a bank account. For the United States, when controlling for the same household characteristics, the difference in net wealth between the two groups is around \$42,000. As we discussed in section 3, there might be concerns about a bias in these estimates due to omitted variables. When adding a set of control variables to address this issue (see section 3.3), the difference in net wealth between the two groups is reduced, but remains statistically and economically significant.

The differences in net wealth between the banked and the unbanked are non-trivial and we therefore want to understand the reasons for this gap. A first step in this direction is to look at the breakdown of net wealth into its different components, namely real assets, financial assets, mortgage debt and non-mortgage debt. As Table 5 shows, the difference in net wealth between banked and unbanked households in the euro area comes mainly from the asset side and in particular from the difference in real asset holdings between the two groups. Of the €74,000 wealth gap between banked and unbanked households in the euro area, €58,000 are attributed to the difference between the real assets.

This difference is in line with a gap in home ownership. A separate estimation (not shown here for brevity) that explains the gap in ownership of the household main residence reveals that unbanked households have a 10 p.p. lower probability of being homeowners than their banked peers in the euro area, and 13p.p. in the United States (all results statistically significant at the 1% level). This suggests that the banked households are considerably more likely to accumulate wealth via ownership of their main residence.

The rest comes mainly from the difference in financial assets. Although unbanked households hold a little less debt, the difference is not significant.

Looking at the specification for the United States that is directly comparable to the one for the euro area, we find that also there, the wealth gap is mainly explained by differences in real assets, with comparable magnitudes, although the gap is wider in the case of the euro

area (\$43,000 in the United States, and €58,000 in the euro area). In the case of the differences in financial wealth, the numbers are practically identical, around \$/€ 16,000. The reason why the wealth gap in the United States is smaller than the one in the euro area is due to the liability side of households' balance sheets – whereas there is no substantial gap in debt holdings in the euro area, banked households in the United States are considerably more indebted than the unbanked: they have almost \$15,000 more in mortgage debt and more than \$2,000 more in non-mortgage debt. These results are qualitatively robust to using the extended set of covariates, even if as before, the magnitudes of the treatment effect are found to be somewhat smaller.

But why are the U.S. unbanked households substantially less indebted than the U.S. banked households, whereas there is no such difference in the euro area?¹⁰ To answer this question, it is useful to have a closer look at the matched sample of households. Recall that the matched banked households are by nature similar to the matched unbanked households in many dimensions, i.e. they have lower income, are more likely to be unemployed or not working, have lower levels of education, etc. In the euro area, 12.9% of the matched banked households have mortgages (compared to 23.0 % in the entire population). In the U.S., the equivalent number for the matched banked households is a whopping 28.8% (compared to 48.3 % in the entire population). This implies that mortgage participation by the low-income group is much more common in the United States, in line with the U.S. subprime lending boom of the early 2000s (see also Christelis et al. 2015). It seems that the banked U.S. households managed to benefit from the subprime lending boom, whereas the unbanked U.S. households did not. This generates a substantial gap between the banked and the unbanked which we pick up in our estimates for the United States. It is not present in the euro area, which did not have a comparable subprime lending boom.

5.2 Robustness

All our results are robust to changes in the parameters of the matching method selected, i.e., the number of neighbors matched and the caliper within which matches are allowed. Table 6 shows results if we match to 1 or 10 neighbors (as opposed to 5), and if we modify the caliper to 0.1 and 0.001 (as opposed to 0.01). For brevity, only results regarding the main outcome, i.e. net wealth, are presented. Results are also robust to doing a simple nearest neighbor matching without specifying any caliper and to perform the matching without replacement.

Table 6 here

Row (8) in Table 6 shows results when the estimation does not use population weights. There is not much change for the euro area, but the treatment effect for the United States increases fourfold and becomes statistically insignificant. This arises because the U.S. survey has a strong oversampling of wealthy households; if we have such wealthy households in the matched sample, but do not use population weights, these households have an overly large influence on the estimation, thereby distorting the results.

¹⁰ The U.S. data contain some information that can be helpful to understand how households can have a mortgage when they are unbanked. Some of the unbanked households indicate that they have a mortgage with a mortgage company, the previous home owner, or some membership organization.

Row (9) of the table reports the results when excluding Greece from the euro area sample. As we discussed in section 3.1, the number of unbanked households in Greece is extremely high compared to the euro area (26.6% vs 3.6%), such that this country could be driving the results. Apparently, this is not the case – our results go through even when we exclude all Greek households.

Row (10) reports the results when controlling for whether or not the household has inherited its main residence. Even though this variable could serve as a proxy for initial wealth and/or wealth accumulation outside the banking system, we decided not to include it in the benchmark regressions because it is not available for France. Overall, the results remain unchanged.

For the U.S., we have information available on the reasons why households do not have a bank account. This allows us to classify the unbanked households into those who are so voluntarily and those who are involuntarily excluded from the system¹¹. In order to test whether the nature of the exclusion is important for our results, we run our baseline specification first excluding households who are voluntarily excluded (row (11)) and second, excluding households who are involuntarily unbanked (row (12)). We do not find the two cases to be much different.

Rows (13) and (14) split the sample into the 7 countries with the lowest and the highest shares of unbanked households, respectively. While the effect of being unbanked on net wealth remains in the same order of magnitude, it is estimated to be somewhat larger in countries with relatively fewer unbanked households. This is in line with the notion that these countries have less workarounds, making it more costly to be unbanked. The differences between our baseline euro area specification and the U.S. also confirm this pattern. The wealth gap is smaller in the U.S., where there is a big informal sector which caters to the needs of the unbanked.

We have also conducted a robustness test with regard to the choice of the reference person for the household, for which we use the individual characteristics such as employment status, age, education etc. Our benchmark results are based on what the HFCS calls the “financially knowledgeable person”, who is also the main respondent. We also use the same definition as in the SCF, that is, the male in a couple or the older person in a same-sex couple. When we use this individual instead (row (15)), our results are barely changed.

Row (16) provides results for an alternative definition of financial exclusion – rather than focusing on the unbanked, we now look at the effect of credit exclusion. We define households as being excluded from credit if, in the last three years, they i) applied for credit, were turned down and did not successfully reapply, ii) applied for credit and were not given as much as they had applied for, or iii) did not apply for credit due to a perceived credit constraint. Results show that the effects on net wealth are somewhat smaller than for our benchmark in the euro area, but substantially larger in the United States. These findings reflect the larger importance of credit for U.S. households (75% of which have some form of debt, as compared to 43% in the euro area), and are suggestive that credit can help

¹¹ We consider as voluntarily unbanked those who report as reason for not having a bank account one of the following: they do not like dealing with banks, check book has been/could be lost/stolen, haven't gotten around to it, someone else writes checks for them, doesn't need/want an account or concern about overdraft fees. The involuntarily unbanked are those who report as reason for not having a bank account one of the following: can't manage/balance a checking account, don't write enough checks to make it worthwhile, the minimum balance is too high, service charges are too high, no bank has convenient hours or location, not allowed to have account (credit problems; bankruptcy; does not meet depository's qualifications for having an account), or don't have (enough) money.

households in their accumulation of wealth (most notably via mortgage debt and the corresponding participation in the housing market).

Beyond nominal amounts, we have also compared log net wealth. The results are shown in the last row of Table 6, and indicate that the effect of being unbanked need not be additive in wealth, it could equally be multiplicative.¹²

6. Conclusions

Financial inclusion has become an important topic in the current policy debate. Especially following the global financial crisis, the issue has also gained prominence in advanced economies. Using data for 14 euro area countries and for the United States, this paper has shown that there are important parts of the population in advanced economies that remain unbanked, such as the low-income and the poorly educated households, and households in countries that have less access to financial institutions (as proxied by the density of ATMs in a given country).

Without access to saving and borrowing instruments via formal financial institutions, these households are prone to be at a disadvantage economically, as they cannot smooth consumption as easily, and face more difficulties in accumulating wealth. In line with this hypothesis, we find that banked households report substantially higher net wealth than their unbanked counterparts, with a gap of around €74,000 and \$42,000 in the euro area and the United States, respectively. One reason for this wealth difference is that banked households are considerably more likely to accumulate wealth via ownership of their main residence.

These results provide support for the notion that financial inclusion is an important issue also in advanced economies. While it shows that being unbanked remains a reality for a non-trivial number of households in the euro area as well as the United States, and that this puts these households at a considerable economic disadvantage, our findings also show that public policies such as paying transfers through bank accounts can mitigate the issue to some extent.

¹² Note that for this specification all households with negative or zero net wealth are discarded.

References

- Allen, F., A. Demirgüç-Kunt, L. Klapper and M.S. Martinez Peria (2012). The Foundations of Financial Inclusion: Understanding Ownership and Use of Formal Accounts. World Bank Policy Research Working Paper No. 6290
- Aportela, F. (1999). Effects of Financial Access on Savings by Low-Income People. Mimeo, Banco de México.
- Ashraf, N., D. Karlan and W. Yin (2006). Tying Odysseus to the Mast: Evidence from a Commitment Savings Product in the Philippines. *Quarterly Journal of Economics* 121 (2), 635–672.
- Banerjee, A. and E. Duflo (2007). The Economic Lives of the Poor, *Journal of Economic Perspectives* 21(1), 141–167.
- Beck, T., A. Demirgüç-Kunt and M.S. Martinez Peria (2007). Reaching Out: Access to and Use of Banking Services Across Countries. *Journal of Financial Economics* 85, 234–266.
- Beck, T., R. Levine and A. Levkov (2010). Big Bad Banks? The Winners and Losers from Bank Deregulation in the United States, *Journal of Finance* 65(5), 1637–1667.
- Bertrand, M., S. Mullainathan and E. Shar (2004). A Behavioral-Economics View of Poverty. *American Economic Review Papers and Proceedings* 94 (2), 419-423.
- Burgess, R. and R. Pande (2005). Can Rural Banks Reduce Poverty? Evidence from the Indian social banking experiment. *American Economic Review* 95(3), 780–795.
- Campbell, D., F.A. Martinez-Jerez and P. Tufano (2012). Bouncing Out of the Banking System: An Empirical Analysis of Involuntary Bank Account Closures. *Journal of Banking and Finance* 36, 1224-1235.
- Célerier, C. and A. Matray (2014). Unbanked Households: Evidence of Supply-Side Factors. Mimeo, University of Zurich, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2392278.
- CGAP (2009). *Financial Access 2009: Measuring Access to Financial Services Around the World*. Washington, D.C.: Consultative Group to Assist the Poor.
- Christelis, D., M. Ehrmann and D. Georgarakos (2015). Exploring Differences in Household Debt across Euro Area Countries and the United States, Bank of Canada Working Paper No. 2015-16.
- Dehejia, R. and S. Wahba (2002). Propensity Score-Matching Methods for Non Experimental Causal Studies. *The Review of Economic and Statistics* 84(1): 151-161.
- Demirgüç-Kunt, A. and L. Klapper (2013). Measuring Financial Inclusion: Explaining Variation in Use of Financial Services across and within Countries. *Brookings Papers on Economic Activity* Spring 2013, 279-340
- Demirgüç-Kunt, A., L. Klapper, D. Singer and P. Van Oudheusden (2015). The Global Findex Database 2014. Measuring Financial Inclusion around the World. World Bank Policy Research Working Paper No. 7255

- Dupas, P. and J. Robinson (2011). Why Don't the Poor Save More? Evidence from Health Savings Experiments. NBER Working Paper No. 17255.
- Dupas, P. and J. Robinson (2013). Savings Constraints and Microenterprise Development: Evidence from a Field Experiment in Kenya. *American Economic Journal: Applied Economics* 5(1), 163–192.
- Faiella, I. (2010). The Use of Survey Weights in Regression Analysis. Banca d'Italia Working Paper No. 739.
- Federal Deposit Insurance Corporation (2014). National Survey of Unbanked and Underbanked Households, October 2014.
- Fellowes, M. and M. Mabanta (2008). Banking on Wealth: America's New Retail Banking Infrastructure and its Wealth-Building Potential. Brookings Institution Metropolitan Policy Program Research Brief.
- Hogarth, J.M., C.E. Anguelov and J. Lee (2004). Why Don't Households Have a Checking Account? *Journal of Consumer Affairs* 38(1), 1-34.
- Honohan, P. (2008). Cross-Country Variation in Household Access to Financial Services. *Journal of Banking and Finance* 32, 2493–2500.
- Honohan, P. and M. King (2012). Cause and Effect of Financial Access: Cross-Country Evidence from the FinScope Surveys in R. Cull, A. Demirgüç-Kunt and J. Murdoch, *Banking the World: Empirical Foundations for Financial Inclusion*. MIT Press.
- Household Finance and Consumption Network (2013a). The Eurosystem Household Finance and Consumption Survey – Methodological Report for the First Wave, ECB Statistics Paper No. 1.
- Household Finance and Consumption Network (2013b). The Eurosystem Household Finance and Consumption Survey – Results from the First Wave, ECB Statistics Paper No. 2.
- IMF (2012). *Financial Access Survey*. Washington, D.C: International Monetary Fund.
- Loibl, C., M. Grinstein-Weiss, M. Zhan and B. Red Bird (2010). More Than a Penny Saved: Long-Term Changes in Behavior Among Savings Program Participants, *Journal of Consumer Affairs* 44(1), 98–126.
- Magee, L., A. Robb and J. Burbidge (1998). On the Use of Sampling Weights when Estimating Regression Models with Survey Data, *Journal of Econometrics* 84, 251–271.
- Mehrotra, A and J Yetman (2014). Financial Inclusion and Optimal Monetary Policy, BIS Working Paper No. 476.
- Morse, A. (2011). Payday Lenders: Heroes or Villains? *Journal of Financial Economics* 102(1), 28–44.
- OECD (2013). *Financial Literacy and Inclusion. Results of OECD /INFE Survey Across Countries and by Gender*, Paris: Organisation for Economic Co-Operation and Development.

- Osili, U.O. and A. Paulson (2008). What Can We Learn about Financial Access from U.S. Immigrants? The Role of Country of Origin Institutions and Immigrant Beliefs. *World Bank Economic Review* 22(3), 431–455.
- Rhine, S.L.W. and W.H. Greene (2006). The Determinants of Being Unbanked for U.S. Immigrants. *Journal of Consumer Affairs* 40(1), 21–40.
- Rhine, S.L.W. and W.H. Greene (2013). Factors That Contribute to Becoming Unbanked. *Journal of Consumer Affairs*, 47(1), 27–45.
- Rosenbaum, P.R. and Rubin, D.B. (1985), Constructing a Control Group Using Multivariate Matched Sampling Methods that Incorporate the Propensity Score. *The American Statistician* 39(1), 33-38.
- Sarma, M. and J. Pais (2011). Financial Inclusion and Development. *Journal of International Development* 23(5), 613–628.
- Seligman, J.S. and R. Bose (2012). Learning by Doing: Active Employer Sponsored Retirement Savings Plan Participation and Household Wealth Accumulation, *Quarterly Review of Economics and Finance* 52(2), 162–172.
- Washington, E. (2006). The Impact of Banking and Fringe Banking Regulation on the Number of Unbanked Americans, *Journal of Human Resources* 41 (1), 106-137.
- World Bank (2008). Finance for All? Policies and Pitfalls in Expanding Access, Policy Research Report, Washington, D.C: World Bank.
- World Bank (2014). Global Financial Development Report 2014: Financial Inclusion, Washington, D.C: World Bank.

Table 1: The share of unbanked households

| | All | Income quintile | | | | | Work status of reference person | | | | Education of reference person | | | Observations | |
|---------------|--------|-----------------|--------|--------|--------|--------|---------------------------------|---------------|------------|---------|-------------------------------|-----------------|-----------|--------------|----------|
| | | 1 | 2 | 3 | 4 | 5 | Employee | Self-Employed | Unemployed | Retired | Other Not Working | Primary or None | Secondary | | Tertiary |
| Euro Area | 3.64% | 9.37% | 3.90% | 2.18% | 1.57% | 1.15% | 2.13% | 3.06% | 6.49% | 4.27% | 6.97% | 7.79% | 3.24% | 1.41% | 51,532 |
| Austria | 0.63% | 2.01% | 0.53% | 0.35% | 0.09% | 0.18% | 0.21% | 1.65% | 0.00% | 1.08% | 0.00% | 0.00% | 0.75% | 0.00% | 2,380 |
| Belgium | 2.33% | 6.54% | 3.71% | 0.87% | 0.00% | 0.49% | 1.04% | 1.76% | 7.42% | 1.71% | 5.56% | 3.67% | 2.82% | 1.52% | 2,327 |
| Cyprus | 18.77% | 29.15% | 22.19% | 17.95% | 16.89% | 7.36% | 16.52% | 10.66% | 20.87% | 25.41% | 21.03% | 34.66% | 19.81% | 13.46% | 1,237 |
| France | 0.43% | 1.11% | 0.52% | 0.31% | 0.12% | 0.09% | 0.21% | 0.05% | 1.08% | 0.38% | 2.52% | 0.91% | 0.28% | 0.08% | 15,006 |
| Germany | 0.96% | 3.17% | 1.31% | 0.27% | 0.00% | 0.00% | 0.10% | 1.06% | 3.56% | 1.60% | 1.87% | 0.00% | 1.30% | 0.33% | 3,565 |
| Greece | 26.57% | 41.27% | 31.24% | 22.98% | 19.23% | 17.85% | 25.44% | 21.52% | 39.08% | 25.86% | 30.61% | 33.75% | 25.54% | 17.50% | 2,971 |
| Italy | 8.24% | 27.76% | 8.46% | 3.05% | 1.47% | 0.44% | 5.15% | 4.66% | 23.12% | 8.60% | 18.69% | 17.08% | 6.07% | 1.77% | 7,951 |
| Luxembourg | 2.03% | 4.71% | 1.97% | 2.73% | 0.68% | 0.01% | 2.99% | 1.11% | 4.52% | 0.00% | 1.51% | 3.55% | 2.17% | 0.41% | 950 |
| Malta | 3.12% | 11.26% | 3.52% | 0.79% | 0.00% | 0.00% | 1.33% | 0.00% | 21.78% | 3.78% | 4.30% | 4.34% | 3.29% | 0.83% | 843 |
| Netherlands | 5.76% | 5.57% | 3.35% | 6.45% | 6.22% | 7.24% | 6.22% | 3.06% | 0.00% | 4.27% | 4.86% | 8.62% | 5.72% | 5.48% | 1,301 |
| Portugal | 5.74% | 16.12% | 7.18% | 2.83% | 1.68% | 0.88% | 3.01% | 2.90% | 7.78% | 8.71% | 10.40% | 8.38% | 1.90% | 0.92% | 4,404 |
| Slovakia | 8.78% | 23.82% | 11.34% | 6.03% | 1.46% | 0.66% | 2.03% | 0.61% | 10.50% | 25.13% | 9.88% | 38.02% | 9.92% | 4.76% | 2,057 |
| Slovenia | 6.39% | 18.00% | 7.82% | 0.88% | 4.44% | 0.66% | 0.41% | 3.88% | 4.41% | 13.96% | 0.00% | 26.75% | 7.39% | 0.63% | 343 |
| Spain | 1.86% | 4.15% | 1.27% | 1.68% | 1.85% | 0.30% | 1.21% | 1.21% | 3.06% | 1.69% | 3.02% | 3.11% | 1.87% | 0.37% | 6,197 |
| United States | 7.54% | 21.97% | 9.85% | 4.34% | 1.12% | 0.44% | 6.41% | 5.23% | 20.35% | 3.86% | 19.90% | 22.73% | 8.34% | 1.58% | 6,482 |

Notes: The table shows the share of unbanked households in the HFCS and the SCF, along with the number of observations in each dataset. The breakdown by income quintile is based on total gross household income excluding income from financial assets, where the quintiles are calculated over the distribution in each country separately. All numbers are calculated using population weights.

Table 2: Net wealth and home ownership for banked and unbanked households

| | Net wealth | | | | Home ownership | |
|---------------|---------------------|----------|-----------------------|----------|----------------|----------|
| | Mean (000 euros/\$) | | Median (000 euros/\$) | | Banked | Unbanked |
| | Banked | Unbanked | Banked | Unbanked | | |
| Euro Area | 237.48 | 71.81 | 114.61 | 18.30 | 60.23% | 52.32% |
| Austria | 265.07 | 259.89 | 76.75 | 43.34 | 47.79% | 36.97% |
| Belgium | 342.49 | 126.03 | 210.64 | 1.50 | 70.38% | 38.85% |
| Cyprus | 731.97 | 221.70 | 297.97 | 58.80 | 79.42% | 64.79% |
| France | 234.33 | 19.52 | 116.95 | 0.83 | 55.47% | 9.72% |
| Germany | 197.04 | 2.05 | 53.00 | 0.05 | 44.51% | 12.62% |
| Greece | 165.29 | 87.83 | 113.86 | 58.00 | 73.98% | 68.06% |
| Italy | 293.90 | 66.39 | 190.30 | 9.50 | 70.99% | 43.43% |
| Luxembourg | 713.47 | 450.96 | 404.50 | 5.00 | 67.77% | 35.28% |
| Malta | 374.24 | 65.23 | 224.53 | 32.32 | 78.68% | 48.15% |
| Netherlands | 170.76 | 147.39 | 104.30 | 45.78 | 56.55% | 65.90% |
| Portugal | 159.41 | 41.76 | 78.80 | 11.25 | 72.72% | 51.10% |
| Slovakia | 82.36 | 51.11 | 62.93 | 38.50 | 89.59% | 92.96% |
| Slovenia | 152.67 | 87.26 | 104.45 | 30.25 | 82.02% | 79.11% |
| Spain | 294.27 | 109.18 | 184.30 | 96.15 | 82.79% | 77.68% |
| United States | 533.00 | 27.70 | 93.40 | 1.10 | 70.90% | 23.60% |

Notes: The table shows the mean and median reported net wealth and the share of households that own their main residence, for banked and unbanked households. All numbers are calculated using population weights.

Table 3: Determinants of being unbanked

| | Euro Area | | Euro Area | | USA | |
|----------------------|------------|-------------------|------------|-------------------|------------|-------------------|
| | AME | <i>Std. error</i> | AME | <i>Std. error</i> | AME | <i>Std. error</i> |
| Age | 0.000 * | <i>0.000</i> | 0.000 * | <i>0.000</i> | 0.000 ** | <i>0.000</i> |
| Income quintile 2 | -0.030 *** | <i>0.009</i> | -0.030 *** | <i>0.006</i> | -0.054 *** | <i>0.008</i> |
| Income quintile 3 | -0.047 *** | <i>0.015</i> | -0.047 *** | <i>0.011</i> | -0.091 *** | <i>0.009</i> |
| Income quintile 4 | -0.060 *** | <i>0.017</i> | -0.059 *** | <i>0.013</i> | -0.138 *** | <i>0.014</i> |
| Income quintile 5 | -0.066 *** | <i>0.019</i> | -0.066 *** | <i>0.016</i> | -0.159 *** | <i>0.018</i> |
| Self-employed | 0.001 | <i>0.008</i> | -0.001 | <i>0.007</i> | 0.006 | <i>0.011</i> |
| Unemployed | 0.013 *** | <i>0.005</i> | 0.016 *** | <i>0.004</i> | 0.042 *** | <i>0.011</i> |
| Retired | -0.008 | <i>0.009</i> | -0.005 | <i>0.007</i> | -0.016 | <i>0.014</i> |
| Other not working | 0.014 *** | <i>0.004</i> | 0.011 * | <i>0.006</i> | 0.170 *** | <i>0.027</i> |
| College | -0.026 *** | <i>0.004</i> | -0.022 *** | <i>0.005</i> | -0.090 *** | <i>0.010</i> |
| Highschool | -0.030 *** | <i>0.007</i> | -0.019 *** | <i>0.008</i> | -0.043 *** | <i>0.008</i> |
| Married | -0.010 *** | <i>0.004</i> | -0.009 *** | <i>0.004</i> | -0.026 ** | <i>0.010</i> |
| Divorced | 0.000 | <i>0.006</i> | 0.002 | <i>0.006</i> | -0.002 | <i>0.009</i> |
| Number of hh members | 0.008 *** | <i>0.002</i> | 0.006 *** | <i>0.001</i> | 0.001 | <i>0.003</i> |
| Gender | 0.006 | <i>0.006</i> | 0.005 | <i>0.006</i> | -0.022 ** | <i>0.009</i> |
| Race | -- | -- | -- | -- | -0.051 *** | <i>0.006</i> |
| Low-fee account | -0.014 | <i>0.011</i> | -- | -- | -- | -- |
| Government transfers | -0.062 *** | <i>0.019</i> | -- | -- | -- | -- |
| ATMs per 1000km2 | 0.000 * | <i>0.000</i> | -- | -- | -- | -- |
| Austria | -- | -- | -0.010 *** | <i>0.002</i> | -- | -- |
| Belgium | -- | -- | 0.019 *** | <i>0.001</i> | -- | -- |
| Cyprus | -- | -- | 0.094 *** | <i>0.002</i> | -- | -- |
| France | -- | -- | -0.025 *** | <i>0.002</i> | -- | -- |
| Greece | -- | -- | 0.109 *** | <i>0.003</i> | -- | -- |
| Italy | -- | -- | 0.052 *** | <i>0.002</i> | -- | -- |
| Luxembourg | -- | -- | 0.012 *** | <i>0.003</i> | -- | -- |
| Malta | -- | -- | 0.015 *** | <i>0.003</i> | -- | -- |
| Netherlands | -- | -- | 0.050 *** | <i>0.002</i> | -- | -- |
| Portugal | -- | -- | 0.035 *** | <i>0.003</i> | -- | -- |
| Slovakia | -- | -- | 0.065 *** | <i>0.003</i> | -- | -- |
| Slovenia | -- | -- | 0.051 *** | <i>0.002</i> | -- | -- |
| Spain | -- | -- | 0.003 | <i>0.004</i> | -- | -- |
| Pseudo R-squared | 0.202 | | 0.259 | | 0.295 | |
| Observations | 49,452 | | 51,532 | | 6,482 | |

Notes: The table reports results from probit regressions that model whether a household is unbanked, following equations (1) and (2). AME denotes average marginal effects; standard errors are reported in italics. Columns (1) and (2) are based on data for the euro area, with standard errors clustered by country. Column (1) is based on equation (2a), i.e. includes country-specific variables. Column (2) is based on equation (2b), i.e. includes country-fixed effects. Column (3) shows results for the United States and is based on equation (2c). ***/**/* denotes statistical significance at the 1%/5%/10% levels.

Table 4: Outcome of the matching

| | Euro Area | USA (1) | USA (2) |
|--------------------------------|-----------|---------|---------|
| Number of unbanked hhs | 2,491 | 463 | 463 |
| Number of matched unbanked hhs | 2,488 | 449 | 439 |
| Number of matched banked hhs | 7,291 | 1,133 | 1,077 |
| Pseudo R-squared | | | |
| Before matching | 0.28 | 0.32 | 0.36 |
| After matching | 0.00 | 0.00 | 0.01 |
| p > chi squared | | | |
| Before matching | 0.00 | 0.00 | 0.00 |
| After matching | 0.99 | 1.00 | 1.00 |
| Median bias (%) | | | |
| Before matching | 16.77 | 36.08 | 36.94 |
| After matching | 1.25 | 1.69 | 1.37 |
| Mean bias (%) | | | |
| Before matching | 21.21 | 41.88 | 38.70 |
| After matching | 1.43 | 2.34 | 1.89 |

Notes: This table shows the results of the propensity score matching. Each unbanked household is matched with the five closest banked households, provided that the distance between their propensity scores is smaller than 0.01. The first column shows results for the euro area, the second column for the United States when the control variables are the same as for the euro area (except for ethnicity which is only available for the US). The control variables are: Age, age², income quintile dummies, working status (self-employed, unemployed, retired, other inactive and employed as the excluded category), education (completed secondary education, completed tertiary education, or primary education as benchmark group), marital status (married, divorced, or single as benchmark group), the number of household members, gender (male, or female as benchmark group) and ethnicity for the US (white, or non-white as benchmark group). In the case of the EA country fixed affects are also included. For USA (2), we control in addition for the extent to which households shop around when looking for financial investments, whether they make use of specialized software to help them with their financial decisions, whether the household is saving (or has saved) for a future major expense, the ability of the household to get money from friends and relatives in case of an emergency, household's saving habits and the reasons for saving. Pseudo R-squared is the pseudo R-squared from a probit estimation of the treatment status on all the variables in the model. p stands for the corresponding P-value of the likelihood-ratio test of the joint insignificance of all the regressors. The standardized bias statistics are calculated as follows: we calculate the bias for each covariate, i.e. the % difference of the sample means in the treated and non-treated (full or matched) sub-samples as a percentage of the square root of the average of the sample variances in the treated and non-treated groups, based on the formulae from Rosenbaum and Rubin (1985). To get a single summary statistic, we subsequently calculate the median/mean of these biases.

Table 5: Effect of being unbanked on net wealth and its components

| Outcome | Euro Area | | USA (1) | | USA (2) | |
|----------------------------------|---------------|----------|---------------|----------|---------------|----------|
| (1) Net wealth | -74,326.3 *** | 12,456.2 | -41,555.1 *** | 12,088.8 | -25,998.0 *** | 10,418.6 |
| (2) <i>Of which: Real assets</i> | -58,350.4 *** | 12,900.1 | -42,539.1 *** | 11,356.1 | -35,922.2 *** | 10,398.5 |
| (3) <i>Financial assets</i> | -16,400.3 *** | 3,893.9 | -15,693.9 *** | 3,238.7 | -8,961.8 *** | 3,048.6 |
| (4) <i>Mortgage debt</i> | 316.7 | 2,425.0 | -14,544.2 *** | 2,650.1 | -16,799.8 *** | 3,157.5 |
| (5) <i>Non-mortgage debt</i> | -741.1 | 698.9 | -2,133.7 ** | 1,085.1 | -2,086.2 ** | 1,092.8 |

Notes: This table shows the average treatment effect using the sample of matched households, and using weights as in DuGoff (2014). The outcome variable is defined in the header of each row. ***/**/*/* denotes statistical significance at the 1%/5%/10% levels. Standard errors are reported in italics.

Table 6: Robustness checks – effect of being unbanked on net wealth

| | Euro Area | | USA (1) | | USA (2) | |
|---|---------------|----------|---------------|-----------|---------------|-----------|
| (1) Baseline specification (5 neighbours, caliper 0.01) | -74,326.3 *** | 12,456.2 | -41,555.1 *** | 12,088.8 | -25,998.0 ** | 10,418.6 |
| (2) 10 neighbours, caliper 0.01 | -74,589.3 *** | 12,565.1 | -44,413.1 *** | 9,742.1 | -27,568.1 *** | 8,210.2 |
| (3) 1 neighbour, caliper 0.01 | -69,660.4 *** | 13,090.2 | -38,290.9 | 31,547.5 | -28,605.0 * | 16,316.1 |
| (4) 10 neighbours, caliper 0.1 | -74,206.6 *** | 12,212.8 | -41,653.7 *** | 11,692.0 | -24,089.7 ** | 9,661.9 |
| (5) 10 neighbours, caliper 0.001 | -74,633.5 *** | 12,212.8 | -42,043.6 *** | 14,374.8 | -30,455.6 ** | 12,892.3 |
| (6) 1 neighbour, no caliper | -69,623.7 *** | 13,118.0 | -39,697.3 | 31,023.2 | -25,022.3 * | 15,061.9 |
| (7) 1 neighbour, no caliper, without replacement | -74,397.4 *** | 13,695.9 | -37,735.7 | 25,413.4 | -24,957.6 ** | 12,511.7 |
| (8) Unweighted | -82,557.8 *** | 22,950.8 | -229,766.1 | 264,620.2 | -182,840.7 | 177,315.7 |
| (9) Excluding Greece | -84,759.0 *** | 15,529.7 | -- | -- | -- | -- |
| (10) Additional control: main residence inherited | -75,307.4 *** | 16,869.9 | -37,798.7 *** | 12,236.2 | -29,644.9 *** | 10,745.2 |
| (11) Excluding voluntarily unbanked | -- | -- | -38,888.7 *** | 10,819.5 | -19,030.2 ** | 9,868.0 |
| (12) Excluding involuntarily unbanked | -- | -- | -42,261.9 *** | 15,126.5 | -30,874.7 * | 18,609.5 |
| (13) Low percentage of unbanked households | -76,690.2 *** | 30,427.3 | -- | -- | -- | -- |
| (14) High percentage of unbanked households | -63,114.3 *** | 13,076.0 | -- | -- | -- | -- |
| (15) Alternative definition of reference person | -70,093.2 *** | 10,064.2 | -- | -- | -- | -- |
| (16) Credit constraint as definition of exclusion | -66,860.4 *** | 12,692.3 | -87,873.7 *** | 19,874.9 | -80,845.5 *** | 22,187.7 |
| (17) Log net wealth | -0.778 *** | 0.276 | -0.333 * | 0.172 | -0.168 | 0.181 |

Notes: This table shows the average treatment effect using the sample of matched households. The dependent variable is net wealth. Row (1) reports the results already shown in Table 5. Rows (2) to (7) report results for different matching algorithms as described in the row headers Row (8) shows results when no population weights are applied. Row (9) shows results excluding Greece from the euro area sample. Row (10) contains results if the regression controls for whether or not the household has inherited its main residence. Rows (11) and (12) exclude from the sample households who are voluntarily / involuntarily unbanked. Rows (13) and (14) split the sample into countries with low/high shares of unbanked households. Row (15) provides results with an alternative definition of the household's reference person, and row (16) with an alternative definition of financial inclusion. Row (17) shows results for log net wealth as dependent variable. ***/**/* denotes statistical significance at the 1%/5%/10% levels. Standard errors are reported in italics.

Acknowledgements

This paper uses data from the Eurosystem Household Finance and Consumption Survey. It presents the authors' personal opinions and does not necessarily reflect the views of the Bank of Canada, the European Central Bank or the Eurosystem. We thank Victor Aguirregabiria, Teodora Paligorova, Sébastien Pérez-Duarte, Elisabeth Stuart and Suresh Sundaresan, an anonymous referee for the ECB Working Paper Series as well as seminar participants at the ESRI, the Bank of Canada, the Eurosystem Household Finance and Consumption Network, the 2016 Canadian Economic Association meetings and the 56th Italian Economic Association annual conference for helpful comments.

Miguel Ampudia

European Central Bank, Frankfurt am Main, Germany; email: miguel.ampudia@ecb.europa.eu

Michael Ehrmann

European Central Bank, Frankfurt am Main, Germany; email: michael.ehrmann@ecb.europa.eu

© European Central Bank, 2017

Postal address 60640 Frankfurt am Main, Germany
Telephone +49 69 1344 0
Website www.ecb.europa.eu

All rights reserved. Any reproduction, publication and reprint in the form of a different publication, whether printed or produced electronically, in whole or in part, is permitted only with the explicit written authorisation of the ECB or the authors.

This paper can be downloaded without charge from www.ecb.europa.eu, from the [Social Science Research Network electronic library](#) or from [RePEc: Research Papers in Economics](#). Information on all of the papers published in the ECB Working Paper Series can be found on the [ECB's website](#).

| | | | |
|------|-------------------------|-----------------|-------------------------|
| ISSN | 1725-2806 (pdf) | DOI | 10.2866/979715 (pdf) |
| ISBN | 978-92-899-2708-6 (pdf) | EU catalogue No | QB-AR-17-002-EN-N (pdf) |