Alternative Financial Providers and Their Socio-Economic Impact: Evaluating the Role of Regulatory Reform

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Abstract:

Financial institutions play a central role in economic development by facilitating financial intermediation between surplus and deficit economic units. However, episodes of market failure, such as the 2008–2009 global financial crisis, have highlighted the limitations of conventional financial systems and the need for regulatory intervention. Beyond periods of financial instability, many individuals remain excluded from mainstream banking services due to poor credit histories, insufficient collateral, or other barriers to access. As a result, they increasingly rely on alternative financial providers (AFPs), including payday lenders, pawnshops, and other non-traditional credit institutions, to meet their financial needs.

While AFPs enhance access to credit and promote financial inclusion for underserved populations, their services are often associated with higher borrowing costs and may contribute to financial vulnerability, indebtedness, and broader socioeconomic challenges. This study seeks to examine the social and economic costs associated with the use of alternative financial providers and to evaluate the effectiveness of the regulatory frameworks governing their operations.

Using evidence from the United Kingdom, Canada, and the United States, the research will undertake a comparative analysis of the regulatory regimes that shape the alternative financial services sector. Particular attention will be given to identifying similarities and differences in regulatory approaches, assessing their effectiveness in protecting consumers, and determining the extent to which regulatory reforms mitigate the adverse social and economic consequences associated with alternative finance. The study aims to contribute to policy debates on balancing financial inclusion with consumer protection in increasingly diverse financial markets.