Building Blocks of Wealth:
A National Financial Inclusion Strategy

The Lack of Financial Inclusion Hurts Individual Americans and our Entire Nation. Creating a National Financial Inclusion Commission is an Important First Step.

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About Aspen FSP

The Aspen Institute Financial Security Program's (FSP) mission is to illuminate and solve the most critical financial challenges facing American households and to make financial security for all a top national priority. We aim for nothing less than a more inclusive economy with reduced wealth inequality and shared prosperity. We believe that transformational change requires innovation, trust, leadership, and entrepreneurial thinking. FSP galvanizes a diverse set of leaders across the public, private, and nonprofit sectors to solve the most critical financial challenges. We do this through deep, deliberate private and public dialogues and by elevating evidence-based research and solutions that will strengthen the financial health and security of financially vulnerable Americans. To learn more, visit AspenFSP.org, join our mailing list at http://bit.ly/fspnewsletter, and follow @AspenFSP on Twitter.

What's in This Report

Introduction

Across rural America and in urban centers throughout the country, there is a little-known roadblock to economic growth and personal prosperity that is keeping millions of people from achieving financial independence and building personal wealth.

Many people are "unbanked," meaning they lack a bank account, while others are "underbanked" and forced to use alternative financial services such as money orders, check-cashing services, and payday loans rather than traditional loans and credit cards to manage their finances and fund purchases. Both situations block millions of people across the nation from personal financial stability and hurt our nation's overall economic growth.

The lack of equitable access to the full range of innovative, effective, and convenient banking and financial services necessary to succeed in twenty-first century America excludes millions of people from the possibility of creating personal wealth.

That is why over 110 companies, trade groups, and consumer organizations have joined with the Aspen Institute Financial Security Program, calling for establishing a **National Financial Inclusion Strategy** to deliver better financial outcomes for all people, whatever their zip code.

The pandemic proved that when our financial systems are put under pressure, significant parts of them fail. They fail for households across America, and they fail by leaving out the most vulnerable and historically excluded households across the U.S.

An inclusive financial system is a ***healthy*** financial system; the inclusiveness of the system should be as important in measuring the health of our system as other elements of safety and soundness.

Even before the pandemic, millions lacked access to financial services for far too long--not only basic banking and payment options but also access to reasonable credit, savings and investment opportunities, and insurance. This has prevented people and their families from achieving both short-term financial stability and long-term financial security. Often, those impacted are members of communities of color or residents of rural communities who have seen a loss of physical bank branches in their communities.

The proof is in the numbers:

- More than 7 million households across the U.S. remain unbanked and are disproportionately Black, Hispanic, American Indian, or Alaska Natives.
- In 2017, 9.9% of rural Americans lived in banking deserts compared to 1.7% of urban Americans.
- 43% of adults in households making less than $50,000 a year reported having no emergency savings at all in 2021. Four in 10 workers in America lack access to a workplace retirement savings plan.
- Partially as a result, the top 1% of wealthiest households own 31.8% of the wealth in America, compared to 2.8% owned by the bottom 50%.

Promoting financial inclusion is not just good for the individuals impacted. It is in our long-term national interest. A 2019 analysis by McKinsey estimated that the United States' real GDP could be 4%-6% higher if we created a more inclusive financial system to remove racial and other systemic disparities. Research from the International Monetary Fund also shows a 2-to-3 percentage point GDP growth difference over the long-term between financially inclusive countries and their less inclusive peers.

Financial Exclusion isn't an Urban Problem or a Rural Problem. It is a National Problem.

The causes of the problem are complex, cross-disciplined, and systemic. A systemic problem needs a systemic solution.

For too long, the U.S. has taken a fragmented approach to financial inclusion. Federal agencies, financial institutions, community organizations, and advocacy groups have led important individual initiatives to address the lack of inclusive financial systems in the United States. One such example is the Biden Administration's recent Executive Order making support for racial equity and underserved communities a top priority for federal agencies, a step that will have impacts on financial inclusion as well.

These initiatives, however, do not operate with a shared set of goals, accountability measures, or incentives to drive collaboratively toward a common, identifiable set of objectives. Furthermore, these initiatives often operate outside other key elements of our financial infrastructure, such as supervision, compliance, and rulemaking because of this siloed approach, public and private sector efforts can and often do run important programs to improve inclusion while simultaneously implementing policies or practices that build further exclusion. [1]

Without singular leadership to coordinate activities, measure progress toward a common objective, and better integrate goals of inclusion into the running of our financial system, fragmented approaches across governmental entities and with other sectors will persist. This vision requires an enduring home in government whose responsibility is to ensure the objectives of a national financial inclusion strategy are met across the public, private, and civic sectors. Together, a clear vision with central leadership will ensure long-term success for everyone in this country.

Over 50 countries have developed financial inclusion strategies to set national goals and coordinate action, improving access to financial services for their citizens. The United States trails other countries with its lack of a comprehensive financial inclusion strategy.

The federal government should create a National Commission to establish a financial inclusion strategy to set joint goals for federal agencies and the private sector for financial inclusion, develop ongoing means of coordinating action between leading agencies and organizations, and track progress toward building an inclusive financial system in the U.S.

It is time to bring together actors across sectors to establish a shared vision for how policies, products, and business models can create the inclusive financial systems required to generate an inclusive and sustainable economy.

This recommendation is the culmination of several years of research and dialogue conducted by the Aspen Institute Financial Security Program with the leading voices in financial inclusion and those systematically excluded from financial systems. [2] This has included roundtable discussions and interviews with policymakers, leaders of financial services providers, consumers, civil rights advocates, and other leading researchers and experts. Over 110 institutions have signed the stakeholder letter in support of this proposal. [3]

Our nation needs a "North Star" that guides our efforts on the journey, one that is grounded in the experience of people and their families and provides a clear and consistent set of objectives and principles. We believe a diverse **National Financial Inclusion Commission** can identify that "North Star" and the strategies and tactics to allow our country to succeed in this critically important effort.

Defining an Inclusive Financial System [4]

An inclusive financial system provides everyone the ability to access, utilize, and reap the benefits of a full suite of financial services that facilitate stability, resilience, and long-term financial security. This relies on a well-functioning system of interrelated stakeholders in the public, private and social sectors providing consumers with safe, affordable, and useful financial products and services ranging from payments to short-term and long-term savings vehicles, credit, investments, retirement accounts, and insurance, protecting them from bad actors, and providing educational tools and resources consumers can use to make informed financial choices.

Financial systems are the network of public, private, and social sector institutions and platforms that provide, regulate, and supervise the range of financial services used by households to build short-term stability and long-term financial security, including but not limited to payments, short-term and long-term savings vehicles, credit, investments, and insurance.

National Financial Inclusion Commission: Mandate and Membership

The National Commission on Financial Inclusion will improve financial health and security outcomes for people in the United States by creating a national, interagency, whole of government strategy on financial inclusion. The strategy should aim to broaden access to financial services among underserved communities and improve the ability of such communities to use and benefit from financial tools and services. The strategy should establish national objectives for financial inclusion, set benchmarks for measuring progress, and offer recommendations for how public policy, government programs, financial products and services, technology, and other tools and infrastructure can advance financial inclusion. The strategy should build upon and coordinate existing financial inclusion activities in government, the private sector, and the nonprofit community and should be developed in partnership with each stakeholder.

Commission Mandate

Setting the national financial inclusion strategy should include these main activities:

- **Setting our national North Star.** The strategy should establish national objectives for financial inclusion, to be used by the Commission to analyze financial inclusion progress toward outcomes, which helps to set strategic priorities going forward.
- **Mapping government's role and identifying opportunities to build inclusive financial systems.** The strategy should develop a comprehensive, whole of government view on its role and where resources are required to further build an inclusive system.
- **Mapping the private and social sectors' roles and identifying opportunities to build inclusive financial systems.** The strategy should be developed in concert with the private and social sectors and identify their role in building inclusive financial systems. It should identify opportunities for those sectors to promote financial inclusion, including both the products/business practices and the business models required for inclusivity and the role of investors and philanthropy in the system.
- **Establishing the strategy and ensuring accountability in government.** With this analysis complete, the national strategy should boldly identify the critical actions required to solve financial inclusion gaps and establish the strategic priorities for the government and private sector. It will also establish mechanisms for coordination of activities and ongoing accountability that track progress toward an inclusive financial system. [5]

Setting Our North Star

An important first set of activities for the commission should be establishing a North Star for the effort, defining the desired goals for access, usage, and outcomes at a high level. This would mean setting a series of measurable goals that all stakeholders in the financial services ecosystem, both public and private, can align on to achieve an inclusive financial system, aided by new methods of measuring financial health. This will require that the commission catalog the existing public and private data sources available to set the statistical and administrative benchmarks for an inclusive financial system in the U.S. and make recommendations on new data collection necessary to track progress.

Importantly, this North Star should be focused on achieving financial outcomes for households, not just providing access to financial services. This means tracking access and usage across the full spectrum of financial services (bank accounts, short and long-term savings accounts, credit, and insurance) and how that access impacts financial outcomes. To reach true financial inclusion, people must also be able to engage with, utilize, and reap the benefits of financial tools and services in ways that help them build both short-term stability and long-term financial security.

Establishing a North Star: An Example from the United Kingdom

The United Kingdom (UK) has a Financial Inclusion Commission that is an independent body comprised of experts from financial services, businesses, non-profits, academics, and elected officials working to make financial inclusion a policy priority for the government, businesses, and civil society overall. In addition, the UK's Financial Inclusion Policy Forum is a government-convened panel of experts that advises the government on financial inclusion activities.

In the Financial Inclusion Commission's Financial Inclusion Strategy 2020, it outlines what success looks like. Among the points it enumerates are included:

- Every UK resident, throughout their lifetime, has the financial products to meet their needs through:
    - A fully functioning transaction account;
    - Credit at a fair and affordable price;
    - The right insurance at a fair and affordable price; and
    - Emergency and long-term savings products, including pensions.
- Government, businesses, and regulators take measures to ensure that people have access to the essential financial products and services they need at a fair price and protect their interests.
- Government, business, and regulators work together to bridge the gaps between regulatory and social policy to ensure nobody is left behind. This includes a comprehensive safety net that effectively bridges private and social insurance.
- Financial markets, products, and services are designed inclusively and do not cost more if you are low-income or face challenging life circumstances.

Any Conversation About Financial Inclusion Must Itself Be Inclusive—We Need Voices from Across the Political, Policy, and Business Landscape to Enhance Economic Opportunity and Growth.

A National Financial Inclusion Commission is the best way to ensure that all parties in the conversation have a real voice in creating a more financially inclusive country. Consumers, businesses, and government subdivisions have a mutual interest in creating a more inclusive financial system.

For consumers, it can create true, generational wealth. Businesses have access to untapped customers who may have previously been unable to buy their products or services. Governments may see lower benefit outlays and enhanced tax revenues.

Many businesses have already taken extraordinary steps to expand financial inclusion. The business community has legitimate, important concerns that need to be heard, understood, and addressed if we are going to make a difference. They need certainty in regulation and an understanding of the complexities inherent in our fast-changing banking and financial services landscape.

The proposed Commission can foster a seamless, all-inclusive approach to addressing this complex problem. We want to create equitable opportunity for individuals and certainty and stability for the regulated industries, and the only way to do that is with a systemic approach that hears from and respects all stakeholders.

But, before we know where we are going, we need to fully know where we have been. Part of the Commission's mandate should be to look at how each sector impacts and is impacted by the current system.

Mapping Government's Role and Identifying Opportunities to Build Inclusive Financial Systems

An initial activity for the National Commission on Financial Inclusion would be to map the ways the government already affects financial inclusion and then identify the gaps that inhibit our creation of a truly inclusive system. These include places where either a lack of concerted leadership or the holes in the system itself create an opportunity to fill the vacuum and think about the role of government in a wholly different way.

In looking at government roles, four main functions are critical to recognize:

1. **Regulator and Policy Maker.** Government sets rules and policies for the financial system, influencing how private industry can sustainably serve customers who have accounts with lower balances or lower loan sizes. Examples of this range from the types of incentives seen in the Community Reinvestment Act or the tax code to the cost of compliance with Know Your Customer requirements or AML/CFT regulation. An analysis of how this rulemaking may be impacting the ability to achieve financial inclusion goals will be a useful starting point for identifying strategic priorities in a national strategy.

2. **Direct service provider.** At many levels, the government is a financial services provider in its own right. Whether it is through issuing public benefits payments, as a tax collector, as a lender itself, or as a secondary market actor, the government acts as a financial services provider. Examining the impact of this role in the aggregate - and not only through the lens of what each program or agency is doing - will make clear the effect the government can have on inclusion. In addition, examining what each agency can do to bolster inclusion, such as in the way payments are disbursed, will yield critical and actionable priorities.

3. **Financial Inclusion programs.** Many agencies administer programs that already have goals related to financial inclusion and which should be considered as an area to investigate for lessons and the potential for collaboration. These include programs at regulatory agencies such as the OCC's Project REACh and programs to reach consumers with quality financial advice and education, such as HUD's Homeownership Counseling programs.

4. **Procurer.** The government contracts out for many aspects of financial services provision. Examples include choosing a firm to provide a reloadable card for the provision of public benefits, requiring that only specific credit score(s) can be used to underwrite a loan, or working with a technology company for identity verification to access government programs. The specifications and requirements in each contract similarly have an impact on inclusion. Those policies should be examined in the course of setting national priorities.

Mapping The Private Sector's Role and Identifying Opportunities to Build Inclusive Financial Systems

Financial inclusion as a goal will require concerted coordination across the government and the private sector. Examining practices by financial services providers across the for-profit and nonprofit sectors will be a supplementary exercise at the outset of the Commission. Similarly, identifying when and where inclusion as a goal is missing or ill-defined and where bold solutions may be required will be a priority. This cataloging should include:

- **Business practices/models**
    - Current business practices have an outsize impact on financial inclusion. Examining these practices, their underlying infrastructure, and the business models driving business decision-making is essential, as is how that varies by the type of institution providing the products and services. Practices and business models will look quite different for large, regulated banks, small financial technology companies, nonprofit CDFIs, and credit unions, for example.

- **Industry standards**
    - The commission should identify what industry standards exist to guide more inclusive practices. We need to understand where these are evident and in practice today, what standards might help us achieve more inclusive practices in the future, and how we might measure and hold providers accountable for meeting those standards.

- **Investing and Philanthropy**
    - The requirements of investors and philanthropic funders also have an influence on business practices. For example, requirements for expected losses, how quickly to achieve profit, or growth targets will impact a financial services provider's decisions around whom to serve and how. Cataloging these types of influences will help us better understand the catalytic role these actors play in our ability to achieve financial inclusion goals.

Establishing Strategy and Ensuring Accountability

Based on the establishment of a financial inclusion North Star and the cataloging of priorities and opportunities for both government and the private sector, the commission would then set about establishing the National Strategy for Financial Inclusion. The strategy document will summarize the existing initiatives in government, the private sector, and among non-profits that affect financial inclusion – and where they fall short. It will document the North Star – defining the objectives of the financial inclusion strategy, providing data on where the country is today in achieving those objectives, and setting benchmarks for measuring progress as the strategy is implemented.

It will offer a prioritized list of strategic activities the government and the private and social sectors should focus on to make progress. These strategic activities should draw extensively from the gaps identified in the mapping activities outlined above - the important spaces where we can present new ways of thinking about the role of the government and the private sector in solving for an inclusive financial system.

We anticipate that the national strategy will necessarily incorporate some important areas of emphasis, including:

- An overview of the research linking financial inclusion outcomes for individuals to impacts on the healthy growth of the economy and the financial system's health.

- Recommendations for "financial inclusion principles" that federal agencies and private sector entities may use to analyze their own products, services, and programs. Such "financial inclusion audits" may be helpful in understanding where, for example, rulemaking may be at odds with financial inclusion goals.

- An investigation of the impact of our current system of identity verification on financial inclusion, including the relationship between the risk mitigation purposes of AML/KYC rules and the impact it has on marginalized populations accessing financial services for everyday purposes. This may also include the treatment of digital identity solutions as well as the role of technological advances for both regulators and financial services providers in overcoming these issues.

- An analysis of data sharing and data privacy considerations when considering how technology can be leveraged to streamline onboarding to a range of financial services and improve the user experience to address questions of inclusivity. Government rules may be preventing some forms of data sharing that could improve inclusion outcomes; data privacy considerations may indeed make these firewalls important. An analysis of where we might reform the data sharing and privacy rules will likely need to be part of the national strategy.

- The economics of providing accounts that may have lower balances for daily transactions, savings, credit, insurance, and investment will be a key consideration in thinking through the respective roles of the private sectors and government. The national strategy will likely need to address the sustainability of providing and servicing such accounts in partnership with private sector providers.

- Ways to consider the role of emerging technology such as blockchain, web3, and other advances in either promoting inclusion or further exclusion. This should also include the impact of digital connectivity (or the lack thereof) among certain communities.

The final recommendation the Commission should make is for accountability mechanisms across the Commission's member agencies that will coordinate the implementation of the national strategy and track progress against its goals. This includes ensuring individual agencies are reporting on their progress towards specific recommendations in the strategy and leading the work on data collection and reporting towards the financial inclusion goals set in the strategy.

Commission Membership and Leadership

The National Financial Inclusion Commission should be comprised of the key federal agencies that have a meaningful impact on the financial services sector either via its rulemaking or market participation. In addition, an advisory group of private stakeholders should be convened that will provide additional advice and counsel to the Commission and coordinate private sector commitments to the strategy.

Federal Agency Participation

The Commission should be comprised of key federal agencies involved in the financial services system. Participation from these agencies should be individuals with significant decision-making authority that Commission work is able to drive towards action at each agency.

Commission membership should include:

- Leadership by the Treasury Secretary and staffed by the Treasury Department.
- Agencies with regulatory oversight of the financial services industry, such as the Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Federal Reserve System, the National Credit Union Administration, Office of Thrift Supervision, Securities and Exchange Commission, Consumer Financial Protection Bureau, and the Federal Trade Commission.
- Agencies providing financial services as part of their mandates, such as the Departments of Education, Agriculture, Defense, Health and Human Services, Housing and Urban Development, Labor, and Veterans Affairs, the Small Business Administration, and the Social Security Administration.
- Agencies providing data critical to the Commission's ability to measure progress against financial inclusion goals, such as the Department of Commerce.

Other agencies should be able to join as well, as their work overlaps with financial inclusion goals. Each participating agency should be prepared to participate in strategy-setting research and analysis of its own rulemaking, policies, and programs. Providing data on consumer access and use of relevant financial products, particularly disaggregated by race, age, gender, and other demographics, will be useful in understanding where gaps persist. Research and data teams from each agency may need to participate in supplying and analyzing data to arrive at a final strategy.

Private Sector Advisors

The Commission members would benefit from a close relationship with private sector stakeholders representing a variety of interests. We recommend an advisory council that at least includes representatives from:

- Civil rights organizations, particularly representatives from communities most affected by financial exclusion, such as Black, Latino, Native American, immigrant, LGBTQ+, disabled, and older communities.
- Consumer advocates and researchers with knowledge and expertise around exclusionary banking, lending, credit, savings, and investment practices.
- Financial institutions, including both large and small banks, credit unions, community banks, and community development finance institutions (CDFIs).
- Companies providing services in payments, consumer data, insurance, asset management, and tax preparation.
- Companies working in emerging financial technologies

The staff of the Commission should have the authority to consult with such private sector advisors as is necessary to gain insights, data, and expertise helpful to constructing a national financial inclusion strategy.

In addition, the advisory group should be coordinating across private sector stakeholders to gather private sector commitments to achieving the goals of the national financial inclusion strategy. A healthy, inclusive financial system requires the participation of these actors in delivering quality financial products that are accessed and utilized. Dialogue between the government and the private sector about the business impacts of government rulemaking, enforcement, and service provision on inclusion goals is critical to the success of this endeavor.

National Financial Inclusion Commission: Ongoing Duties

The Commission's initial work to establish a national financial inclusion strategy is only the beginning. Once a "North Star" and strategic priorities have been set, federal agencies and private sector institutions will need to work together to implement the Commission's recommendations. The Commission's work will then pivot to tracking progress against those priorities and, perhaps, more importantly, reporting on progress towards the goal of an inclusive financial system.

An annual "State of Financial Inclusion" progress report will hold Commission member agencies and the private sector accountable for the goals of an inclusive financial system and implementing actions that move us closer to these goals.

This annual "State of Financial Inclusion" report shall be delivered to both the President and Congress and be made publicly available. It would outline the North Star and goals identified by the national strategy, outline progress against the key metrics in the national strategy, and update progress on the strategic priorities identified as key action items that need to be taken in order to make progress against goals.

Financial Inclusion National Strategy Examples

Hypothetical Example 1:
If the national strategy identified a gap in access to retirement savings accounts among lower-income workers exacerbated by a) an inability to serve non-traditional workers and b) the cost of servicing low-dollar accounts, it might target an increase in enrollment in all forms of retirement accounts by those making under $50,000 as a metric to track.

Goal:
Increase the access to and participation in workplace retirement savings accounts among workers making less than $50,000.

Metric:
Access to workplace retirement savings among workers making less than $50,000 grows from XX% today to YY% in five years and participation rates in those plans increase from XX% to YY%

Strategic Priority:
Key actions required among public and private sector stakeholders including:

- Review of IRS and DOL regulations affecting the cost of servicing low-dollar accounts
- Coordination of data collection among states providing state-facilitated auto-IRAs to identify evidence-based practices for reaching low-income savers
- Commitments by major retirement plan providers to launch products targeted at low-income savers, such as retirement plans that include emergency savings

Hypothetical Example 2:
If the national strategy identified algorithmic bias in credit scoring preventing access to many government financing programs, including SBA loans, VA Home loans, etc., among low-income individuals, particularly Black, Latino, and Native Americans, it might identify an audit of rules among government financing programs to bring credit scoring requirements up to date with modern scoring techniques while also asking industry to invest more in reducing bias in such algorithms.

Goal:
Increase access to federal lending programs among low-income individuals, Black, Latino, and Native American individuals in particular

Metric:
The percentage of recipients of such loans increases from XX% to YY%

Strategic Priority:

- Audit of credit scoring requirements by HUD, Veterans Affairs, SBA, USDA, and other federal programs offering government loans, or government-backed financing
- Updates of credit scoring algorithms by the major credit scoring agencies to reduce systemic bias
- Commitment by major lending companies in the home, car, auto, and small business lending space to update credit scoring requirements as well

Endnotes

1 For example, federal loan underwriting standards through FHFA, Veterans Affairs, and USDA all require the use of outdated credit scoring models from pre-2008 that exclude households not able to be scored. At the same time, these agencies' inclusion programs try to help consumers reach those credit scores that are not designed for today's potential borrowers. This example of lending requirements working at cross-purposes to inclusion programming is where a national financial inclusion strategy should bring the work into alignment.

2 For more information, see the August 2021 issue of the Community Development Innovation Review, "Fintech, Racial Equity, and an Inclusive Financial System", a publication of the Federal Reserve Bank of San Francisco, co-published with the Aspen Institute Financial Security Program.

3 A full list of signatories can be found here.

4 Homer, Matt and Ben White. "Why Now is the Time for a National Strategy to Build an Inclusive Financial System." Aspen Institute Financial Security Program, October 2019. https://www.aspeninstitute.org/publications/why-now-is-the-time-for-a-national-strategy-to-build-an-inclusive-financial-system/

5 Including private sector competition and innovation, technology, regulation, supervision, and enforcement of consumer protection laws, the spectrum of financial services provided by both the private and public sectors, credit bureaus, payments systems, etc.