

# Payment Aspects of Financial Inclusion – Roundtable discussion

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Federal Reserve Bank of New York

33 Liberty Street, NY, NY, 10045

**Organizations:** Accion East, Appleseed, Center for Financial Services Innovation, Cities for Financial Empowerment Fund, Credit Builders Alliance, ideas42 & The Financial Clinic.

## Themes:

- It is recommended to shift from the idea of financial inclusion to a broader concept such as financial health or financial well-being as it considers both access and usage, in addition to resiliency and asset building (e.g. a large portions of Americans may be financial included however may not be financially healthy). This concept should be added to the diagram of the interrelation of foundations, catalytic pillars and effective usage (it should be placed above the roof).
- In the same diagram, the financial literacy pillar should shift to financial capabilities as the knowledge portion is not sufficient. This pillar should also consider product-design. For the purposes of the report, it may be useful to align terminology with other international organizations such as the OECD (that uses the term financial capabilities).
- In addition to the pillars, it may be beneficial to identify actors charged with leading each component of the house. For example, many stakeholders involved in promoting financial inclusion are engaged in product-design, not just financial institutions.
- Transaction accounts are only essential if the product is safe, efficient and most importantly, well understood. The outcome of a transaction account has shifted from opening an account to lowering the cost of a financial transaction (e.g. considering products like Venmo). Individuals may be banked; however it is important to measure how accounts are being used. It is necessary to include information in the report on how individuals are using financial products and if they are efficient, safe and best suited for them.
- Speed of payments is another component that is critical to consider if transaction accounts have any hope of competing with cash. Individuals need access to financial platforms that will give them money right away.
- The role of technology and mobile innovation should be captured in the report, considering the current landscape wherein brick and mortar is becoming obsolete and smart-phone penetration in low and moderate income communities is prevalent.
- When looking at issues related to physical access to financial products it is also important to similarly review ways in which consumers are using those products. Aside from physical barriers there are underlying factors preventing consumer from using transaction accounts. Those underlying barriers are often related to lack of trust in the financial product/institution or cultural/language barriers. There needs to be better data collection on how consumers are utilizing transaction accounts and financial institutions should review user interface techniques as well the product interface. In some occasions, insurance could be considered a barrier more than an access

point and may not be essential for low-value consumers. For the purposes of the report, it is important to highlight the role that Community Development Financial Institutions' play in providing individuals with access.

- Large-volume, recurrent payment streams could be used to advance financial inclusion not only by creating transaction accounts, but by building credit history. There is a big opportunity for cities and municipalities to set up accounts as part of a program to enhance financial inclusion and to streamline their payments. However, it is important to recognize that recurrent payment systems are diverse; work differently; and come from different agencies —social security, child support, unemployment, etc. There is an opportunity to expand and consolidate these payments. It would be beneficial to organize a convening that includes government agencies, financial institutions and payment providers to brainstorm if there are ways to collaborate.
- Given that credit invisibles don't have mortgages or credit cards, recurrent payment streams represent an opportunity to build credit history. There is an opportunity to leverage utility bill, rent payments, and income tax returns for this purpose. It is recommended that public & private institutions come together to take advantage of this opportunity and encourage electronic payments. This may help people have a transaction history and could help them gain access to other services. Another path to foster financial inclusion of individuals and entrepreneurs is to include payment information from startups that offer loans and new technologies that register payments (such as Square).
- Incentives to use transaction accounts are important, but it is important to expand our thinking of incentives in addition to offering monetary rewards. There are organizations that are grabbing people's attention and encourage them to make payments through electronic means through sweepstakes, service reminders and tracking tools.
- In order to measure the effectiveness of financial inclusion efforts, nonprofit organizations would like to know more about their constituents (demand-side), but lack resources to conduct surveys or opportunities to experiment with programs that would produce useful data.
- Regarding the supply-side, large financial institutions have access to big data, but startups that are actually more nimble and capable with data don't have access to it. If large banks could research their own data and share some of it with the public, it could help answer some of these questions and address existing barriers. JP Morgan Chase and CFSI's *Financial Solutions Lab* is an innovative approach.
- Consumers are willing to share their data with financial companies and startups when they see value in doing so. Therefore, it is important to consider the issue about consumers' data collected by commercial banks and startups and who the data pertains to. It's also critical to ensure that the consumer is protected when assessing models of financial inclusion.