Michael S Barr: Expanding financial inclusion

Speech by Mr Michael S Barr, Member of the Board of Governors of the Federal Reserve System, at "Unleashing a financially inclusive future", the second annual financial inclusion conference, hosted by the Federal Reserve Board, Washington DC, 15 July 2025.

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Thank you, Eric; thank you to the Fed staff who have organized this second annual financial inclusion conference; and thank you all for being here.[1]

I have long believed that financial inclusion is a crucial component of a safe and fair financial system. Working to improve financial inclusion has been an important part of my career, starting in 1995 when I joined the Treasury Department and worked with colleagues to build Community Development Financial Institutions, strengthen the Community Reinvestment Act, and launch the New Markets initiative. At the University of Michigan, financial inclusion was key to programs I worked on to support minority entrepreneurship.

With the support of both the public and private sectors, there have been many improvements and advancements in financial inclusion over the last three decades, evidenced by the decline in the rate of people who are unbanked and the increasing reach and success of programs such as the Bank On initiative that better meet the needs of low-income customers. I welcome this progress, but there is so much more to do to deepen and widen financial inclusion to many millions of people in America who could benefit from it. Better access to affordable financial services, geared to the needs of underserved families and entrepreneurs can help them to build more secure lives, stronger communities, and a stronger American economy.

Financial inclusion contributes to the Federal Reserve's mission of promoting a healthy and growing economy and a safe and stable financial system. Consumers are two-thirds of economic activity, so access to credit for low-and-moderate income households and small businesses helps the economy to grow. In addition, the Fed has an important role in implementing a series of laws passed by Congress related to access to credit, such as the Community Reinvestment Act. As we learned during the Global Financial Crisis, household finances are crucial to a strong and stable financial system.

In my remarks today, I would like to go through several ways that the public and private sectors are helping to increase financial inclusion. Those efforts include greater access to bank accounts and financial services, faster payments services, responsible small-dollar lending methods, and the use of alternative data to promote credit access. These efforts have shown promise in expanding financial inclusion.

Bank Account Access Is the Foundation to Financial Inclusion

Financial inclusion begins with access to basic bank account services. While financial services are evolving rapidly-with new forms of financial intermediation, payment services, and even deposit-like money claims-it is still the case that access to a bank account is the foundation for helping families and businesses get the financial services they need. Bank accounts provide access to direct deposit of paychecks, benefit payments and tax refunds. Bank accounts provide connections to peer-to-peer payment systems, and for the vast majority of retail and wholesale payments. Bank accounts are also often the entry point for access to credit for households and businesses.

According to the Federal Deposit Insurance Corporation's 2023 *National Survey of Unbanked and Underbanked Households*, the number of Americans without bank accounts is at the lowest it has been since the survey began in 2009. Yet, there remain groups that struggle with low account access, including those who are disabled, those without a high school diploma, and minority groups, among others. Households that include someone of working age with a disability are three times as likely to be unbanked as working-age households without a disability. Meanwhile, Hispanic and African American households and American Indian and Alaskan Native households are five and six times as likely, respectively, to be unbanked as White households.[2] The unbanked cite account opening costs, unpredictable or high fees, and high minimum balance requirements as among the top reasons for not obtaining bank accounts.[3]

Expansion of Banking Access

One private-sector program that has helped to address barriers to account access is the Bank On program, supported by the Cities for Financial Empowerment Fund (CFEF). Bank On is led by coalitions of regional financial institutions, community groups, and local governments working together to bring households into the financial system. CFEF certifies that Bank On accounts meet standards including low minimum deposits for account opening; low maintenance, overdraft, or other unexpected fees; and free branch ATM, online, and mobile banking.

Over 46,000 bank branches nationwide offer a certified Bank On account. An important way that the program has spread and taken root in communities is through the coalition model, which involves establishing relationships with local and state governments, public officials, and community organizations. These partners, engaged with and trusted by their communities, have helped overcome apprehension about bank accounts and helped drive the outreach needed for any business to find new customers. The Federal Reserve System has long been a partner of the Bank On Initiative. In 2006, the Federal Reserve Bank of San Francisco was a partner in creating the first coalition. At the St. Louis Fed, the publicly available Bank On National Data Hub (BOND) was created in 2017 to help identify the availability of certified accounts. Bank On coalitions across the country continue to partner on engagement, outreach, and data collection with their regional Reserve Banks, to offer safe and affordable bank accounts.

Faster Payments

Financial inclusion also requires timely access to funds. People living paycheck to paycheck incur the greatest costs of waiting for these funds. One of the primary benefits of a bank account over time is facilitating payments. Technological advances have driven improvement in this area, sometimes only incrementally, but the more recent advent of real-time payments-especially new services for instant or immediate payments-has the potential to make a big leap forward in service to households and businesses. Cash-strapped households and businesses need access to their funds right away, and they need reliable ways to pay expenses when they are due (and when they have the funds to pay them).

Low-income households may need quick access to make just-in-time transactions, such as same-day utility bill payment through their bank or to quickly receive funds from a family member to cover an emergency expense like an unanticipated car repair. While the benefits of getting instantaneous access to paychecks are obvious, the value of controlling precisely when and in what order payments settle may be less appreciated. With real-time payments, households and businesses can have better control over payment flows, helping them, for example, to avoid unexpected and unwelcome overdraft and nonsufficient funds fees.

Many other countries are seeking methods to improve the speed of payments. In India, for example, the implementation of the Unified Payments Interface (UPI), which is the country's digital instant funds transfer system, has allowed consumers to see some of these benefits in action. UPI is available for free on a customer's mobile device and can be used for merchant payments, bill payments, and money transfers, among other things. Since its implementation, the Reserve Bank of India has noted an increase in financial inclusion, particularly in rural areas where bank branch access is difficult.[4]

We have seen the benefits of technological advancement and innovation here in the U. S. as well. Today, technologies to improve the speed of payments are being implemented across platforms and products, providing consumers various ways to move money quickly and easily. The Federal Reserve, as a part of its mission to foster a safe, efficient, and widely accessible payments infrastructure, is playing a role as well. As we have in the past, and in collaboration with the private sector, we have worked to innovate the payment system using the latest technology to better meet the needs of businesses and households. In 2023, we launched FedNow, an interbank payment system for banks and credit unions of all sizes to instantly and securely transfer money for their customers, any time of the day, on any day of the year.[5] We are encouraged by innovative private-sector engagement with the new platform and instant payment services generally. We are already seeing early adopters rolling out new services that can benefit consumers. One example is the ability for gig-economy workers to gain instant access to earned wages, which can make a big difference in household cash flow management. We expect these types of innovations will continue to expand in the coming years and be delivered in new contexts, ultimately bringing broad benefits to liquidity-constrained households and small businesses that need to tightly manage payment inflows and outflows.

Small-Dollar Lending

Access to small-dollar loans from banks can help consumers smooth through the ups and downs of income and expenses. I think many people would be surprised how widely this help is needed. According to the Fed's 2024 Survey of Household Economics and Decisionmaking, when asked how they would respond if confronted with an unexpected $400 expense, nearly 20 percent of adults said they would have paid at least in part by selling something; using a payday loan, deposit advance, or overdraft; or would not be able to pay for the expense. When looking at households with incomes of under $25,000, this number increases to 46 percent.[6] Access to reasonably priced credit to cover these sorts of expenses is therefore a common need, especially among those with lower incomes. These households have no financial slack.

In contrast to the more costly and riskier sources of credit that I mentioned, we are seeing bank-offered products that are helping to increase access to safer, lower-cost forms of small-dollar lending. The Fed and other bank regulators took a helpful step in this regard in 2020 by issuing guidance. According to that guidance, responsible small-dollar loan programs must treat customers fairly, have effectively managed risks, and be underwritten based on prudent policies. That means, first, that products are offered in a way that most customers successfully repay their small-dollar loans in accordance with original loan terms, which is a key indicator of affordability, eligibility, and appropriate underwriting. Second, it means repayment terms, pricing, and safeguards minimize adverse customer outcomes, including cycles of debt due to rollovers or reborrowing. And finally, it means repayment outcomes and program structures enhance a borrower's financial capabilities by contributing positively to their record of servicing debts.

Most banks that have offered small-dollar loan products since 2020 follow these principles, and it has had a positive impact on the loan terms they offer. Loan terms have better matched customer needs and rates have come down. Small-dollar loans that have the potential to disrupt the market for costly alternative financial services are bank products that provide a straightforward application process, clear loan terms, certainty about approval, strong likelihood of repayment, and quick disbursement of funds.[7]

Alternative Financial Data

Another channel for improving financial inclusion is the use of alternative financial data to supplement the traditional measures that banks have relied on to judge the creditworthiness of borrowers with limited or no traditional borrowing history. For example, lenders can evaluate cash flow-steady income and bill payments-as a measure of the likelihood of loan repayment. Alternative data can help lenders take a "second look" for consumers who would otherwise not qualify based on the more traditional credit-score-based underwriting models. In addition to making less expensive and more suitable loans available, alternative data often allows faster loan decisions. This is an important consideration for low- and moderate-income borrowers, who tend to have little savings, and struggle with meeting an unexpected expense.[8] Technological advances such as application programming interfaces (APIs), a set of specifications that can allow software to communicate with each other, can also help lenders access permissioned consumer financial data that can be used for underwriting. APIs also facilitate automated application, decisionmaking, and fund delivery.

Let me conclude by returning to where I started, which is the crucial role of access to safe, transparent, and low-cost bank accounts as the gateway to financial inclusion. We have made great progress, but I am certain that there are still many people whose finances and lives could improve with a bank account suited to their needs and economic circumstances. I applaud the work of financial inclusion leaders in doing what they can to make bank accounts available and better tailored to the needs of low- and moderate-income households. In thinking about how to better design financial products and services, we can build on many years of behavioral financial research and practice. Thank you.

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1 The views expressed here are my own and are not necessarily those of my colleagues on the Federal Reserve Board or the Federal Open Market Committee.

2 Federal Deposit Insurance Corporation, *2023 National Survey of Unbanked and Underbanked Households (PDF)* (FDIC, November 2024).

3 FDIC, *2023 National Survey.*

4 Mohammad Imdadul Haque, Abdul Azeez N.P., and S.M. Jawed Akhtar, "UPI and Financial Inclusion in Rural India: A Case Study," *Development and Sustainability in Economics and Finance* 26 (2025), https://doi.org/10.1016/j.dsef.2025.100056.

5 As an interbank payment system, the FedNow Service operates alongside other longstanding Federal Reserve payment services such as Fedwire® and FedACH®. The Federal Reserve is committed to working with the more than 9,000 banks and credit unions across the country to support the widespread availability of this service for their customers over time.

6 Federal Reserve Board staff analysis of survey results, published in the *Economic Well-Being of U.S. Households in 2024* (PDF) (Federal Reserve Board, May 2025).

7 The Pew Charitable Trusts, "From Payday to Small Installment Loans (PDF)," Brief (August 2016).

8 The Pew Charitable Trusts, "Consumers want from their small-dollar-loans: Access /Certainty of approval, Affordability, and Speed," Issue Brief (May 2023).