Fintech: Creating a More Inclusive and Equitable Financial System

More than 22 million Americans are unbanked or underbanked, lacking access to traditional financial services. This lack of access leaves millions of Americans vulnerable to predatory and expensive financial services, leading to excessive fees, debt spirals, and poor credit. According to the FDIC, gaps in traditional banking particularly impact communities of color: about 14 percent of Black households and 12 percent of Latinx households are unbanked, compared to 2.5 percent of White households.

Fintech companies are filling this gap by extending credit and opening access to financial services to historically marginalized communities, helping create a more inclusive and equitable financial system for consumers and small businesses. In partnership with minority depository institutions (MDIs) and community development financial institutions (CDFIs), fintechs are driving competition and fostering innovation for consumers, small businesses, and the economy.

Fintech Partnerships Help MDIs and CDFIs Compete in the Financial System

CDFIs and MDIs play a critical role in closing the racial wealth gap and extending financial services to traditionally unbanked and underbanked communities. CDFIs and MDIs are increasingly partnering with fintechs to offer more competitive, technology-driven products and services.

This partnership is increasingly underpinned by the concept of open banking, a financial ecosystem giving consumers control over the full range of their financial data to serve consumers better and unlock choice. Thanks to open banking, CDFIs and MDIs give consumers access to services they want, like bill payment management and optimization, saving round-up tools, overdraft protection services, and personalized investment advice. In fact, 76 percent of Americans say the ability to connect their accounts to apps and services is a top priority when selecting a bank.

Financial Technology Association (FTA) members are partnering with CDFIs and MDIs across the country, including:

- **Zest AI**'s AI-driven lending models are helping CDFIs across the country safely approve more protected-class borrowers hampered by the limits of traditional credit scoring.
    - **Zest** helped GreenState Credit Union (Iowa's biggest) deploy an auto lending model that approves 25 percent more women and other protected-class citizens.
    - **Zest** also helped Truliant in Winston-Salem, NC, update to AI-based risk models for its auto lending. Truliant then saw a 31 percent average increase in approvals across Black, Hispanic, and other protected-class applicants.

- **Plaid** allows consumers to easily and securely provide their bank account data to CDFIs and MDIs to access more holistic and personalized services at their bank, such as tailored financial management. It also allows their consumers to connect to a wide array of fintech services to supplement offerings the banks may not have.

Fintech Democratizes Access to Financial Services for Underserved Consumers

Roughly one in five Americans either do not have a bank account or lack access to the full spectrum of financial services to get credit and save money. That's because traditional banking is often too expensive for most Americans, charging high fees and requiring minimum balances and upfront costs that pose a significant barrier for many unbanked people.

Financial technology companies offer an alternative to the status quo, expanding access to financial services and investment opportunities by letting unbanked or underbanked Americans open accounts without minimum balances or overdraft fees, build credit, and access high-quality investment advice. This frictionless and simple digital banking experience leads to lower costs, faster services, and more inclusion across the financial services industry.

FTA members are at the forefront of these innovations. For example:

- Buy Now Pay Later (BNPL) firms like **Afterpay**, **Klarna**, **Sezzle**, and **Zip** extend credit to traditionally underserved communities. BNPL firms offer low-cost, interest-free, and flexible payment options to manage their cash flow over a six to eight-week period, compared to traditional payment options that trap consumers into a legacy of debt. Studies show that consumers save up to $459 million in credit card fees by making purchases with BNPL.
- **Figure** allows unbanked consumers to earn credit by simply participating in direct deposit for two months with its product, Figure Pay. After two consecutive months of direct deposit, all borrowers will be approved for a Figure Pay Credit Loan, which helps thin file and lower credit score consumers build their credit history.
- Global payments technology company **Wise** helps its 12 million customers, many of whom are migrant workers without access to traditional banking products, save $1.5 billion a year compared to using a traditional bank for international payments.
- Modern card issuer **Marqeta** works with Daylight to provide digital bank accounts for their users, members of the LGBTQ community, a population that traditional banks have underserved.
- **Betterment** offers expert-managed investment portfolios in an easy to use and cost-effective format, allowing a wide range of first-time investors to participate in markets traditionally reserved for the wealthy.

Fintech Helps Minority-Owned Small Businesses Access Capital and Grow

Many small businesses, especially minority-owned businesses, struggle to access the capital they need to start and grow their company. Only 14 percent of small businesses have enough capital to survive a two-month revenue loss, but traditional lending can take up to 180 days. These challenges are particularly acute for minority business owners; 56 percent of Black entrepreneurs say the lack of access to capital hinders their ability to grow.

Fintechs leverage technology to build a more accurate picture of a small business's creditworthiness, leading to faster and fairer rates and approvals. After securing capital, fintechs also help small businesses build and grow successful companies. Fintechs help small business owners optimize their spend management, whether that's bill payment or expense tracking, build equity for their employees, or create consumer-facing products and services. For example:

- Fintech provider **Brex** serves startups that face challenges obtaining credit from institutions that rely on traditional underwriting models, extending higher credit limits than many traditional and FICO-based underwriting models.
- Online payment processor **Stripe** helps underrepresented small business owners and entrepreneurs build their companies. Forty-three percent of Stripe's customers are first-time entrepreneurs, and 28 percent are founders who identify as a minority.

Fintech's Industry-Wide Commitment to Diversity, Equity, and Inclusion

Initiatives like the Fintech Equality Pledge aim to address historic inequities by fostering a more inclusive and equitable financial system. FTA member **Brex** also recently partnered with Plaid and AWS, among others, on Plaid's FinRise initiative, an incubator program designed to provide technical assistance and mentorship to support early-stage founders who are Black, Indigenous, or People of Color. Another FTA member, **Carta**, invests in emerging venture fund managers through Carta Venture and has committed to dedicating at least half of the capital from its venture funds to support historically excluded General Partners (GPs, specifically GPs who are women or people of color.

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The Financial Technology Association (FTA) is a nonprofit trade organization that champions the transformative role of financial technology for American consumers, businesses, and the economy. Representing some of the world's leading financial technology companies, FTA advocates for the modernization of financial regulation to support competition, inclusion, and responsibility. Learn more at ftassociation.org.