Research Paper

Can Government-to-Person Payment Partnerships Increase Financial Inclusion?

Questions for the Field

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The findings, interpretations, and conclusions in this piece are those of the Financial Health Network and do not necessarily represent those of our funders or partners.

[1] While the Financial Health Network uses the term Latinx to refer to people of Latin American descent, we use the term Hispanic here to reflect the language used in Wells Fargo's initiative. See footnote 8 for further explanation.

Table of Contents

Executive Summary

Exploring the Potential of Government-to-Person Payments

According to the 2023 Financial Health Pulse®, more than two-thirds of people in America are Financially Coping or Financially Vulnerable, with financial health disparities persisting across race and ethnicity.[2] Only 13% of Black people and 18% of Latinx people are Financially Healthy, compared with 35% of White people.[3] Many banks have made commitments to help close these gaps and ensure that all individuals are able to spend, save, borrow, or plan in ways that allow them to overcome financial shocks and build wealth over time.

Banks provide access to a range of financial services that consumers need to manage their financial lives, including services that help them pay their bills, make purchases, and put money into savings. However, similar racial disparities exist among the 6 million people in America who are unbanked, meaning they lack access to a checking or savings account. Around 1 in 10 Black or Hispanic households are unbanked, compared with just 2% of White households.[4]

Government-to-person (G2P) payments, especially when facilitated through innovative partnerships between banks, fintechs, and governments (referred to in this report as G2P payment partnerships), may offer a route toward bridging these inclusion gaps by bringing unbanked consumers into the banking system to receive and manage their payments. G2P payments in the U.S. include federal and state payments for social safety net benefits, as well as tax and wage payments. If partnerships connected to these payments are successful in engaging unbanked consumers, they could be a promising way for banks to take action on their racial equity commitments, as well as a pathway for advocates, fintechs, and other stakeholders interested in increasing banking inclusion.

However, we must first answer important questions about G2P payment partnerships, such as whether they address key barriers to banking inclusion and whether financial institutions can sustainably engage in these types of partnerships with G2P fintechs. To help financial services industry players and financial inclusion advocates understand whether to invest in G2P payment partnerships, the Financial Health Network has identified key gaps for further study and put forth ideas for testing key assumptions through consumer research and pilot studies.

This paper explores:

- How G2P payments could facilitate financial inclusion.
- A summary of current G2P payment partnership models, with a focus on the ways banks can partner with fintechs.
- A discussion of key opportunities for further study and considerations for research design.

[2] Kennan Cepa et al., "Financial Health Pulse® 2023 U.S. Trends Report," Financial Health Network, September 2023.
[3] Ibid.
[4] "2021 FDIC National Survey of Unbanked and Underbanked Households," Federal Deposit Insurance Corporation, October 2022.

Understanding G2P Payments and Financial Inclusion

Racial Disparities in Bank Account Usage Limit Financial Inclusion

Bank accounts are seen as an entry point to financial inclusion, yet disparities in bank account ownership persist across the U.S. The "2021 FDIC Survey of Unbanked and Underbanked Households" found that 4.5% of households were unbanked in 2021, which equates to approximately 6 million households who have neither a checking or savings account.[5, 6] The Financial Health Network found in its FinHealth Spend report that the unbanked rate dropped from 5.6% in 2021 to 3.8% in 2022.[7] While the proportion of households in the U.S. who are unbanked has steadily declined since 2011, the unbanked rate is still higher than many high-income countries, including the 17 countries where the national unbanked rate sits at less than 1%.[8]

Historically disadvantaged communities in the U.S. are significantly more likely to be unbanked, including households with low incomes, households without a high school diploma, Black and Hispanic households, and households with a disability.[9, 10, 11] In fact, Black and Hispanic households comprised around 63% of the unbanked population in 2021, despite representing only 27% of the overall U.S. population.[12] These racial disparities in banking inclusion have become an area of interest for banks with racial equity commitments. Citi, JPMorgan Chase, and Wells Fargo are among the financial institutions with initiatives focused on expanding access to banking services for communities of color through programs like low-cost checking accounts or partnerships with minority depository institutions.[13, 14, 15]

Closing these racial gaps in banking access may increase financial inclusion for a number of reasons. Access to a checking or savings account can provide consumers with a secure and centralized way to store and transmit funds, receive direct deposits, pay bills, make purchases, build savings, or pursue

5 "2021 FDIC National Survey of Unbanked and Underbanked Households," Federal Deposit Insurance Corporation, October 2022.
6 The FDIC conducts the household survey in partnership with the U.S. Census Bureau's Current Population Survey. The survey sample is representative of the entire U.S. civilian noninstitutional population, aged 15 or older, however it likely undercounts undocumented immigrant civilians. See "Current Population Survey—America's Source for Labor Force Data," U.S. Census Bureau.
7 Meghan Greene, Wanjira Chege, MK Falgout, & Necati Celik, "FinHealth Spend Report 2023," Financial Health Network, June 2023.
8 Asli Demirgüç-Kunt, Leora Klapper, Dorothe Singer, & Saniya Ansar, "The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19," The World Bank, 2022.
9 The Financial Health Network recognizes that language evolves and different communities identify using different terminology. Reflecting this diversity within the Latino/a/x community, as well as terminology used by cited sources, the following terms are used within this report, often interchangeably: Hispanic, Latino, and Latinx. By no means is this list exhaustive, and we anticipate continuing to evolve our terminology in future reports.
10 "2021 FDIC National Survey of Unbanked and Underbanked Households," Federal Deposit Insurance Corporation, October 2022.
11 The FDIC uses the householder's responses to define the socioeconomic or demographic status of the household unit. See technical notes for more details.
12 "2021 FDIC National Survey of Unbanked and Underbanked Households," Federal Deposit Insurance Corporation, October 2022.
13 "Banking Inclusion Initiative," Wells Fargo.
14 "Racial Equity Commitment," JPMorgan Chase & Co.
15 "Racial Equity," Citi.

entrepreneurship. Bank accounts can also be a first step in building and accessing credit, as some lenders draw from account transaction records to determine eligibility; in accessing financial education resources; and in connecting to other financial services, such as insurance or investment tools.

Additionally, though not causal, bank account ownership has been associated with increased economic mobility and financial resiliency. Historical analysis has shown that Black people in America following the Civil War with bank accounts had higher levels of education, literacy rates, and property wealth.[16] Similarly, research drawing from the "Survey of Consumer Finances in the U.S." found that being banked was associated with higher average wealth, primarily in the form of property wealth, after controlling for demographic characteristics, such as employment status, age, education level, and income bracket.[17]

Bank account ownership is also correlated with financial health. Financial Health Pulse data show that only 7% of unbanked households are Financially Healthy, compared with 33% of households with a bank account.[18] There are many factors that inform financial health, including engagement with a range of high-quality financial products and services that allow a household to spend, save, borrow, and plan.[19]

Researchers have identified a range of factors that influence bank account ownership (Figure 1). Several of the top cited reasons for why households do not have a bank account center around costs (inability to meet minimum balance requirements, fees seen as too high or too unpredictable) and trust (lack of trust in banks, desire for privacy).[20] The former theme has been the subject of much research; the cost of fees (such as overdraft fees) and ambiguity around when those fees occur are a main driver of account closures and avoidance among households with low to moderate incomes.[21]

Other factors include consumers' geographic proximity to a bank branch (and more recently, access to smartphone and broadband internet); their immigration status; and bank usage of screening services, such as ChexSystems or Early Warning Services, to determine account eligibility.[22] Many of these factors are dynamic over time, as is banking status. The Federal Deposit Insurance Corporation (FDIC) found that among unbanked households in 2021, nearly half (49%) had a bank account at

[16] Luke C D Stein & Constantine Yannelis, "Financial Inclusion, Human Capital, and Wealth Accumulation: Evidence from the Freedman's Savings Bank," The Review of Financial Studies, February 2020.
[17] Miguel Ampudia & Michael Ehrmann, "Financial inclusion: what's it worth?," European Central Bank, Working Paper Series, January 2017.
[18] Custom analysis of 2022 Financial Health Pulse data for households who do not have a bank account versus households who have a checking and/or savings account. Financial health is a composite measure of a household's ability to spend, save, borrow and plan. See "What is Financial Health?," Financial Health Network.
[19] Jennifer Tescher, "As The Nation Nears Full Banking Inclusion, It's Time To Focus On Financial Health," Forbes, November 2022.
[20] Ibid.
[21] Lisa Servon, "The Issue at the Heart of America's Great Unbanking," University of Pennsylvania, Wharton Public Policy Initiative Issue Briefs, May 2017.
[22] Paola Boel & Peter Zimmerman, "Unbanked in America: A Review of the Literature," Federal Reserve Bank of Cleveland, Economic Commentary, July 2022.

some point in the past, and many previously banked households report being interested in having an account again in the future.[23]

Figure 1. Factors influencing bank account ownership.

Households are more likely to be unbanked if they:	
Socioeconomic Factors • Earn a low income (under $30k/year) • Are immigrants • Are Black, Hispanic, or American Indian or Alaskan Native • Have a disability • Have a high school diploma or less	**Trust Factors** • Lack trust in banks • Have privacy concerns
Accessibility Factors • Don't meet ID requirements • Have poor credit or banking history • Feel that bank locations/hours aren't convenient • Experience language barriers • Have limited access to internet and/or smartphone	**Monetary Factors** • Feel that bank fees are too high or are incurred too frequently • Believe that minimum balance requirements aren't attainable

Several strategies aim to solve these barriers and promote greater financial inclusion, such as proposals for the creation of public banking through the Treasury Department.[24] The Cities for Financial Empowerment Fund's Bank On initiative also aims to address some of these barriers in its national account standards, which call for features such as low fees and more inclusive account screening processes.[25] As of August 2023, banks and credit unions in the U.S. offer nearly 400 BankOn certified accounts.[26]

G2P Payments Offer an Opportunity To Increase Financial Inclusion

G2P payments may offer another promising opportunity to overcome barriers to bank account access and increase financial inclusion. The World Bank found that as of 2021, around 18% of adults in developing nations (865 million people) have opened their first bank account in order to receive government payments.[27] In the U.S., government disbursements as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act similarly revealed a trigger point between G2P payments and banking inclusion. The FDIC found that among recently banked households who received a

[23] "2021 FDIC National Survey of Unbanked and Underbanked Households," Federal Deposit Insurance Corporation, October 2022.
[24] Howell Jackson & Timothy G. Massad, "The Treasury Option: How the US can achieve the financial inclusion benefits of a CBDC now," The Brookings Institution, March 2022.
[25] "Bank On National Account Standards (2023 – 2024)," Cities for Financial Empowerment Fund, October 2022.
[26] "Banks and credit unions across the country are joining the Bank On movement," Cities for Financial Empowerment Fund.
[27] Asli Demirgüç-Kunt, Leora Klapper, Dorothe Singer, & Saniya Ansar, "The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19," The World Bank, 2022.

government payment, nearly half (around 2 million households) reported the payment as a contributing factor to the account opening.[28]

What Is a G2P Payment?

Government-to-person (G2P) payments in the U.S. originate at both the federal and state government level and largely consist of social safety net benefits and other tax and wage payments from the government to an individual.[29] Examples include the Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), unemployment insurance, income tax refunds, and Social Security payments. Along with tax refunds, Social Security is among the broadest-reaching G2P payment programs, providing monthly benefits to older or disabled workers or their dependents, as well as Supplemental Security Income (SSI) payments to those with qualifying low income status.[30, 31] According to data from the Social Security Administration, around 1 in 5 people in the U.S. (70 million people, including just under 8 million SSI recipients) received Social Security payments in 2021, totaling over $1 trillion in transferred funds.[32, 33]

Importantly, G2P benefits programs are not mutually exclusive: 13% of Social Security recipients in 2021 also received SNAP benefits, and many households are eligible for multiple cash assistance programs at the federal and state levels.[34] Governments distribute payments to individuals through a variety of channels, including direct deposit into financial accounts, paper checks, or prepaid cards. In 2021, governments disbursed over $363 billion on government-issued prepaid cards alone, with many programs increasingly favoring digital payment methods as opposed to the historically utilized paper checks or stamps/vouchers.[35]

Overall, there is significant variability in the way state and federal governments market G2P programs, set and determine eligibility, and structure and disseminate payments. This can make G2P payments challenging to navigate for both consumers and providers alike – resulting in a landscape ripe with opportunities for innovation.

Tax refunds are one example of G2P payments that can serve as a bankable moment. Around 3 in 4 people in America receive a tax refund, including households with low incomes that qualify for tax credit programs such as the Earned Income Tax Credit (EITC) or Child Tax Credit (CTC).[36] Tax time can represent a significant financial windfall for households receiving a refund; this windfall moment is

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[28] "2021 FDIC National Survey of Unbanked and Underbanked Households," Federal Deposit Insurance Corporation, October 2022.
[29] Social assistance programs that do not distribute direct payments to recipients, such as free or reduced school lunch, Medicaid/Medicare, or reduced rental subsidies, are excluded from this review.
[30] "Returns Filed, Taxes Collected & Refunds Issued," Internal Revenue Service, last updated April 2023.
[31] In fiscal year 2022, the IRS issued upward of 200 million refunds totalling more than $500 billion.
[32] "Fast Facts & Figures About Social Security, 2022," Social Security Administration, August 2022.
[33] "Annual Statistical Supplement to the Social Security Bulletin, 2022," Social Security Administration, December 2022.
[34] "Who Is Receiving Social Safety Net Benefits?," U.S. Census Bureau, last updated June 2023.
[35] "Government-Administered, General-Use Prepaid Cards," Board of Governors of the Federal Reserve System, last updated October 2022.
[36] Aimee Picchi, "Tax refunds: Here's where Americans get the biggest IRS refunds," CBS News, April 2022.

seen as a key opportunity to promote engagement with financial services and programs. Examples of these initiatives include Delaware's EITC campaign tax preparation sites, which offered a way for tax filers to open up a direct deposit account at a partner bank in the mid-2000s by completing a brief on-the-spot phone screening, as well as the FDIC's #GetBanked program, which works to promote the benefits of bank accounts through a network of partners.[37, 38]

G2P payments may also act as a through line to populations facing more barriers to bank account ownership. For example, working-age households with disabilities are four times more likely to be unbanked than working-age households without a disability (15% versus 4%, respectively).[39] Notably, recent Financial Health Network research found that gaps in banking inclusion for people with disabilities are largely attributed to income gaps rather than accessibility issues; people with disabilities are more likely to have low incomes than people without disabilities.[40] Notwithstanding, G2P payments such as Social Security Disability Insurance or Supplemental Security Income payments could provide a particular opportunity to address these gaps in banking inclusion for this group.

The relationship between G2P payments and financial inclusion is bidirectional. For one, lack of access to a bank account may be a hindrance to receiving G2P payments swiftly. The U.S. Government Accountability Office (GAO) reported that unbanked households were among the groups of people that experienced difficulties receiving their CARES Act Economic Impact Payments (EIP) in a timely manner.[41] In this case, receiving an EIP through a paper check (which were deployed to those who had not signed up for electronic deposit) could present obstacles ranging from mail delays to needing to visit a check cashing location to access the funds. Relying on nonbank services to access benefits can also incur fees. A Brookings Institution study estimates that for the first round of EIP payments, paper check recipients may have paid up to $67 million in check cashing fees to access their funds via nonbank check cashers and retail stores.[42]

Receiving G2P payments through a bank account does not guarantee financial inclusion, either. Field research on global financial inclusion has shown that recipients of government payments through an account will often withdraw the funds in full and fail to use the account for any other purpose, therefore limiting opportunities for deeper engagement with banking features or services.[43] This again demonstrates that a range of factors can influence whether G2P payments lead to financial inclusion, including trust, accessibility (such as language capabilities or identification requirements), customer relationship, and the program's overall ability to meet beneficiaries where they are.[44]

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[37] Amy Brown, "Expanding Financial Services to Underbanked Consumers: How Tax Preparation Partnerships Can Help Bridge the Gap," The Center for Financial Services Innovation, September 2005.
[38] "#GetBanked," Federal Deposit Insurance Corporation, last updated June 2023.
[39] "2021 FDIC National Survey of Unbanked and Underbanked Households," Federal Deposit Insurance Corporation, October 2022.
[40] Andrew Warren, Wanjira Chege, Meghan Greene, & Lisa Berdie, "The Financial Health of People With Disabilities: Key Obstacles and Opportunities," Financial Health Network, August 2023.
[41] "Millions of People May Still Be Eligible For COVID-19 Stimulus Payments, But Time Is Running Out," U.S. Government Accountability Office, WatchBlog, October 2022.
[42] Dan Murphy, "Economic Impact Payments: Uses, payment methods, and costs to recipients," Brookings Economic Studies, February 2021.
[43] Guy Stuart, "Government to Person Transfers: On-Ramp to Financial Inclusion?," Center for Financial Inclusion at Accion.
[44] Guy Stuart, "Government to Person Transfers: On-Ramp to Financial Inclusion?," Center for Financial Inclusion at Accion.

The Promise of G2P Payment Partnerships

Fintech as a Channel for Financial Inclusion

One avenue for banks to pursue their financial inclusion objectives is through strategic partnerships with G2P payment-focused fintechs. Given fintech's ability for automation, data handling, and digital financial transactions that customers can carry out anywhere and anytime, partnerships with fintech companies may provide banks with further opportunities to overcome barriers to financial inclusion. For one, leveraging fintech partnerships for G2P payments could enhance the choices available to G2P payment recipients in how they receive and manage their benefits and could address the inconvenience of bank branch locations or hours. In fact, nearly half of underbanked households report that mobile banking was their primary method of account access in 2021.[45, 46]

Fintechs may also help banks reach populations that are more likely to be unbanked, such as Black and Latinx households or households with low incomes. A Plaid survey found that Black and Latinx people reported using fintech at greater rates than White people.[47] During the COVID-19 pandemic, after the Payroll Protection Program (PPP) failed to reach the worst-hit communities via traditional bank lenders, fintechs were added to the list of approved lenders due to their ability to quickly approve and disburse funds to these communities.[48] As of early 2021, around 38% of PPP loans processed by fintechs were made to businesses in low- and middle-income communities, and over half of loans to Black-owned businesses were processed by fintech lenders.[49, 50]

Fintech's Role in G2P Payment Partnerships

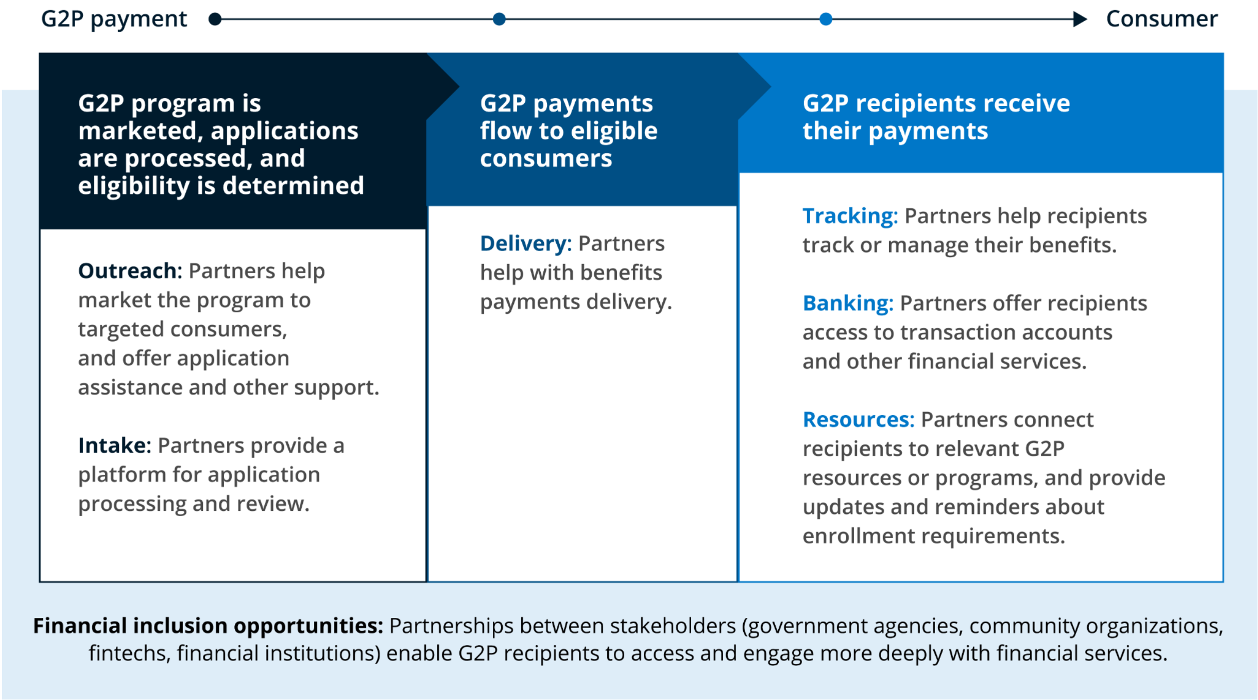
Fintech's role within the broader G2P payment ecosystem is still evolving, and there is substantial variability – and opportunity – in the ways that banks can partner with fintechs to facilitate G2P payments. This also means that there isn't a clear singular mechanism or channel through which G2P payment partnerships can drive financial inclusion (Figure 2). Key ways that banks could collaborate with fintechs through G2P payment partnerships include:

- **Outreach and intake:** Partners can market G2P programs to consumers, provide application platforms, and process applications for review. Fintechs can use their connections to relevant populations to help increase inclusion through targeted marketing and assistance.

[45] "2021 FDIC National Survey of Unbanked and Underbanked Households," Federal Deposit Insurance Corporation, October 2022.
[46] The FDIC defines underbanked households as banked households who have used a non-bank transaction or credit service in the past 12 months.
[47] "The Fintech Effect: Consumer Impact and the Future of Finance," Plaid, 2020.
[48] The Payroll Protection Program (PPP) was designed to support employment during the pandemic through $800 billion in forgivable small business loans.
[49] Haidee Cabusora, Emma Cordova, Amina Kirk, & Ian Watson, "Can Fintech Resolve Public Benefit Obstacles?," Change Machine, December 2021.
[50] Sabrina T. Howell et al., "Lender Automation and Racial Disparities in Credit Access," National Bureau of Economic Research, Working Papers, October 2021.

- **Payment delivery:** Partners can help deliver G2P payments to consumers. Banks and fintechs can provide payment options for unbanked people to access their funds swiftly and at a low cost, such as through digital wallets or expanded no-fee ATM networks.
- **Tracking, banking, and resource provision:** Partners can help G2P recipients access and track their payment balances and learn about other relevant resources or programs. Together with banking services partners, fintechs can offer recipients low-cost account options, with the potential to engage them in a broader suite of financial services.

Figure 2. G2P payment flow.



The following in-market examples further illustrate the range of roles that fintechs can play in G2P payment partnerships:

- **FORWARD**, a fintech program administrator and payment processor, has partnered with local governments and community organizations to facilitate a variety of cash assistance programs. For example, the company partnered with the city of Spokane, Washington, to provide rental assistance to low-income renters. FORWARD worked with local community organizations to market the program and offer application support in multiple languages. The company used its platform to process and review applications, as well as to distribute payments via ACH, paper check, or prepaid cards.[51]

[51] "Case Study: Spokane Rental Assistance Program," FORWARD, December 2022.

- The city of Los Angeles has partnered with **Mastercard** and financial equity-focused fintech **MoCaFi** to administer Immediate Response Cards (known as "Angeleno Cards") that deliver cash assistance and ancillary benefits to residents, including unbanked and undocumented beneficiaries. MoCaFi's Immediate Response Cards, which are issued by MoCaFi's bank partner and funded by the city of Los Angeles, provide a way for recipients to track their balance and transactions on the MoCaFi Angeleno Connect app, as well as access their funds through an expanded ATM network.[52, 53]
- Providers (operated by **Propel**), an early fintech entrant into the government benefits space, allows SNAP recipients to easily track and monitor their food stamp/EBT balances through the app. Propel has expanded to partner with state governments and a bank service partner to offer the Providers Card™ mobile bank card, as well as provide updates about available benefits programs and discount programs to its users.[54] Through a partnership with tax preparation fintechs April and Column Tax, Providers cardholders can also access a free tax filing service that promises quicker receipt of tax refunds.[55]
- Neobank **Totem** serves Indigenous American communities by partnering with tribal governments, like the Eastern Shawnee Tribe of Oklahoma, to provide white-labeled banking services to tribal community members. Totem states that its platform provides a way for tribal governments to disburse payments digitally to users.[56]

Bank/fintech partnerships may be well-suited for G2P payment models with financial inclusion objectives, but the use of fintech for G2P payments does not come without its challenges. While fintechs can make it more convenient to access payments for those who may not be able to get to a brick-and-mortar financial institution easily, a lack of digital access can also hinder people from accessing their money. The Pew Research Center reports that Black and Hispanic households are less likely to have a home broadband internet connection than White households.[57, 58]

Additionally, partners may need to take extra measures to mitigate consumer risks and ensure user data protections – especially when serving populations who may be particularly impacted by data leaks, such as people experiencing homelessness or undocumented immigrants.[59] This call for accountability also includes ensuring transparency for the benefits program itself. Under PPP, the speed and scale at which loans were approved and administered resulted in the approval of a significant number of fraudulent claims, with fintech lenders linked to a disproportionate number of

[52] "Angeleno Card," Mayor's Fund for Los Angeles.
[53] "Angeleno Connect Bank Account," MoCaFi.
[54] "About us," Propel.
[55] "Free Tax Filing on Providers," Propel, Medium, January 2023.
[56] Miriam Cross, "Native American neobank Totem takes on its first tribal partner," American Banker, January 2023.
[57] Andrew Perrin, "Mobile Technology and Home Broadband 2021," Pew Research Center, June 2021.
[58] While the Financial Health Network uses the term Latinx to refer to people of Latin American descent, we use the term Hispanic here to accurately reflect the source material from the Pew Research Center. See footnote 8 for further explanation.
[59] Gerardo Uña, Alok Verma, Majid Bazarbash, & Ms. Naomi N Griffin, "Fintech Payments in Public Financial Management: Benefits and Risks," International Monetary Fund, February 2023.

these claims.[60] Improved processes and accountability practices, as well as understanding key consumer risks, can help prevent future issues.

G2P payment partnerships clearly present a breadth of opportunities for financial inclusion. However, the impact of these opportunities remains relatively untested, limiting the industry's understanding of how to maximize these opportunities and where to invest time and resources. Further exploration of this topic can help providers determine where and how to invest to drive meaningful impact.

Questions for the Field

As more financial institutions, fintechs, and government agencies recognize opportunities for collaboration across the G2P payments ecosystem, the potential link between G2P payments and increased financial inclusion has become clearer. To help industry players and advocates better understand if G2P payment partnerships can address financial inclusion gaps, as well as to help banks explore the feasibility of investing in these partnerships, there are a number of key questions to consider:

- **Financial inclusion impact:** Do G2P payment partnerships address key barriers to financial inclusion?
- **Feasibility for bank partners:** Are G2P payment partnerships a sustainable way for banks to pursue their financial inclusion objectives?
- **The government perspective:** What is the feasibility of financial inclusion partnerships for government agencies?
- **Market opportunities:** Where within the G2P payments ecosystem do the most promising opportunities for financial inclusion exist?

Financial Inclusion Impact

In order for G2P payments to draw new consumers into the formal banking system, partnerships must address existing barriers to inclusion. There is an important opportunity to better understand whether G2P payment partnerships are able to address these key barriers, including concerns over costs, fees, and privacy (for a more detailed discussion of these barriers, see **Racial Disparities in Bank Account Usage Limit Financial Inclusion**). This research is fundamental to establishing a link between G2P payment partnerships and financial inclusion, and it is also a step toward better understanding the mechanisms through which partnerships can drive engagement with banking services.

[60] "'We Are Not the Fraud Police': How Fintechs Facilitated Fraud in the Paycheck Protection Program," Select Subcommittee on the Coronavirus Crisis, December 2022.

Spotlight Learning Opportunity

Key Question: Do G2P payment partnerships help build trust in financial institutions among unbanked consumers and address their concerns over the cost and unpredictability of fees associated with maintaining a bank account?

Learning Opportunity: To learn more about the impact of G2P payment partnerships on key inclusion barriers, partners could carry out interviews, focus groups, and/or surveys among G2P payment recipients. Research should cover the following topics for consumers:

- Perceptions of fintech and traditional banking products and services.
- Awareness of, and trust in, the formal banking system.
- Current experience managing G2P payments (and whether the partnership program has changed how they manage their G2P payments).
- Opinions about which features of the partnership program they find particularly engaging or helpful (and which they don't).

Feasibility for Bank Partners

In addition to establishing the potential for financial inclusion impact, it is important that research demonstrates the sustainability of inclusion-focused G2P payment partnerships for banks. One way to establish feasibility and garner investment in the space is to understand the business impact of increased financial engagement resulting from G2P payment partnerships. In other words, what opportunities do increased financial inclusion present for financial institutions or fintech partners? For investors? For other stakeholders?

Spotlight Learning Opportunity

Key Question: Do G2P payment partnerships increase engagement with formal banking services, including, but not limited to, transaction accounts?

Learning Opportunity: Research could focus on collecting key engagement metrics that result from offering G2P payment recipients access to financial services through a targeted pilot partnership. For example, administrative data collected via a financial institution partner could look at changes to engagement resulting from G2P payment recipients being offered an option to open an account with the partner. Data might include:

- Customer acquisition (e.g., What portion of participating G2P payment recipients opened a transaction account with the financial institution partner?)
- Customer tenure (e.g., Among those who open an account, what does usage look like over time?)
- Engagement with products or features over time (e.g., How often did participants log into or otherwise engage with the partner platform(s)? Aside from transaction accounts, what other products or features did participants use?)

In addition to these learning opportunities, pilot research with G2P fintechs can also help banks better understand the practical implications of partnerships. Key areas to explore include the process for determining the best set of partnered offerings (accounting for customer needs and feasibility) and the potential operational, reputational, or business risks of partnerships for banks.

The Government Perspective

While some G2P payment partnerships can involve a fintech and bank partner without the direct involvement of a government agency (for example, platforms focused on benefits managements like Providers), government partners are integral to the success of other types of G2P payment partnerships, such as those that deal more directly with processing applications or payments. Although there is some understanding of the primary considerations for government when deploying G2P payments (such as efficiency, accountability, and consumer protection), there is more to learn about the feasibility of financial inclusion partnerships for government.

This includes understanding the primary goals and challenges of government agencies when distributing G2P payments with fintech and/or bank partners. For example, what are the key consumer protection or regulatory considerations and concerns for government agencies when partnering with a fintech or financial institution? As discussed in **Fintech's Role in G2P Payment Partnerships**, relief programs designed during the COVID-19 pandemic brought forth concerns over fraud and accountability. Understanding the government perspective on how these concerns have evolved is an important step in establishing the feasibility of G2P payment partnerships that are reliant on government agency participation.

Spotlight Learning Opportunity

One way to better understand the opportunities and challenges of forging G2P payment partnerships with government agencies is to conduct interviews and/or surveys with key experts from G2P payment programs. These subject-matter expert interviews or surveys should focus on learning about the needs of government agencies when running G2P payments programs, as well as their top concerns about working with partners. Given the heterogeneity of government agencies in the G2P payments space, data should be collected from a diverse sample of government agencies that deal with a range of program types (e.g., temporary relief programs, permanent programs, etc.).

Market Opportunities

Assuming that G2P payment partnerships do address barriers to financial inclusion, it is also important to better understand *where* within the G2P payments ecosystem the most promising opportunities for financial inclusion exist. Quantifying the overlap between G2P payment recipients and the unbanked population could help identify focus areas for partnerships. Market sizing exercises could pursue questions such as how many consumers receive one or more G2P payments currently and the portion of these recipients who qualify as unbanked. Relatedly, assuming that G2P payment partnerships could aim to broaden access to G2P payments, research could examine how many consumers are likely eligible for one or more G2P payments programs but are not currently enrolled.

There is also a need to better understand the mechanisms partnerships can use to build financial inclusion. For example, should partnerships focus on engaging with specific segments of the population, such as tribal communities or immigrant populations? Are there certain types of G2P payments that are best suited for inclusion-focused partnerships? Which G2P processes should new technologies focus on streamlining? A series of studies across a variety of partnership models (and/or piloting new models) could help identify the models or features best suited to address barriers to financial inclusion.

While not exhaustive, the research gaps highlighted here lay the foundation for understanding whether G2P payment partnerships can help bridge the financial inclusion gap by offering recipients new opportunities to engage with the formal financial system over time. Second, these questions serve to build industry knowledge about the opportunities to innovate and test new G2P payment models. An important next step in addressing these research gaps is embarking on research that begins to build industry knowledge and paves the way for future impact.

Research Considerations

For industry partners interested in designing and conducting research on G2P payment partnerships, the learning opportunities highlighted throughout the previous section should serve as a starting point. In addition, there are a few key considerations to keep in mind when planning a study.

As discussed throughout this paper, G2P payment partnerships can take many shapes and sizes, and there are many types of partnership models to potentially examine. However, in order for a research evaluation to properly address questions on the potential impact of G2P payment partnerships on key inclusion barriers or engagement with financial services, partnership models must, at minimum, offer a mode of engaging with financial products and/or services. Regardless of the G2P payment partnership model, there must be a through line from consumer to bank – for example, an offer to open up a low-cost bank account to receive G2P payments or an option to withdraw funds at no cost through a partner's ATM network.

Again recognizing that there is significant diversity in the types of G2P payment partnerships that exist (both now and in the future as innovation continues), it is unlikely that a research study focused on a singular model will apply to the G2P payments space at large. On the contrary, a series of partnership evaluations and pilot studies might be best suited to provide answers to the key questions across different dimensions of the industry. There are many ways that G2P payment partnerships might create opportunities for inclusion, and multiple studies would help the industry learn about what works – or doesn't work – from a variety of approaches.

Finally, an important component to successful evaluation design will be the selection of a fintech partner (or partners). To ensure a fruitful evaluation, banks should establish a set of criteria for the partner selection process and use that information to guide their search. These criteria might include factors such as the G2P partner's business model, the demographics of their user pool, and their ability to collect and share data for the purposes of a research project. See **Example Fintech Partner Criteria** for more guidance.

Example Fintech Partner Criteria

Business model

- ☐ Does the fintech offer competing banking services of their own that would conflict with a partnership?
- ☐ Does the fintech have the ability to connect G2P payment recipients to a financial institution partner? For example, a fintech payments processor could offer a partner bank account as one option for receiving G2P payment, or a benefits management fintech could refer its users to partner bank services, such as savings accounts, budgeting tools, or loans.

Population served

- ☐ Does the fintech reach an adequate sample of G2P payment recipients?
- ☐ Does the fintech target populations with lower known banked rates (e.g., Black and Latinx households, undocumented households)?

Data availability

- ☐ Is the fintech able to collect and share data needed for the study? For example, does the partner collect data on what G2P payment vehicle users choose? What portion of users don't have bank accounts to start?
- ☐ Is the partner able to facilitate access to users for surveys and/or qualitative interviews?

Conclusion

G2P Payment Partnerships Show Promise, But More Research Is Needed

Financial inclusion is a first step in building long-term financial resilience, wealth, and financial health. Yet inclusion gaps remain for the millions of people in America who are unbanked, many of whom are people of color. G2P payment partnerships are one potential way to expand financial inclusion and bridge racial equity gaps, and early partnerships offer promising examples of how fintechs, financial institutions, and government agencies can work together to enhance the process and support inclusion.

For banks looking to meet their racial equity commitments and other industry stakeholders interested in pursuing financial inclusion objectives, this paper identifies key research gaps about the potential of leveraging G2P payment partnerships for financial inclusion. We now look to industry stakeholders to carry this work forward and support future studies, bolstering our collective understanding of the G2P space and paving the way for a more equitable financial future.