FINANCIAL HEALTH NETWORK

Response: Treasury's Request for Information on Financial Inclusion

February 20, 2024

The Financial Health Network (FHN) appreciates this opportunity to respond to the U.S. Department of the Treasury's Request for Information on Financial Inclusion (RFI). The subject of this RFI, and the questions the Treasury has posed, go to the heart of The Financial Health Network's mission and the journey that we have been on as an organization since our founding 20 years ago this spring.

The Financial Health Network began life in 2004 as the Center for Financial Services Innovation (CFSI). Our focus at that time was on working with and prodding the financial services industry to serve what we referred to as "underbanked consumers" across the economic, geographic, and cultural spectrum. Indeed, we convened the first national conference on the underbanked in 2006 and issued the first "Underbanked Market Size" study in 2010.[1]

In 2011, CFSI partnered with New York University's Financial Access Initiative to launch the U.S. Financial Diaries project, through which researchers were able to follow the lives of 235 low- and moderate-income (LMI) families over the course of one year. The insights from that research, coupled with our experience over our early years, led us to recognize that the issue of the underbanked was part and parcel of a larger complex of issues and that we needed to broaden our focus. At our eighth annual "Underbanked Financial Services Forum," Jennifer Tescher, the founder and CEO of CFSI, spoke about this shift and, indeed, challenged the over 700 attendees to "redefine the role of the financial services industry" by seeing themselves as being in the "business of financial health" and developing "products and services that...set up consumers for success."[2]

Accordingly, we renamed our annual conference 'EMERGE,' renamed our market sizing studies as reports on the financially underserved market, and eventually renamed ourselves the Financial Health Network, with a mission of achieving financial health for all. The Financial Health Network today is composed of financial institutions, employers, innovators, and nonprofits all working to achieve that vision.

Our responses to the RFI are informed by the insights we have gained from our work over the past two decades.

A. Defining Financial Inclusion

The first set of questions posed by the RFI involve the definition of financial inclusion. The direction that Congress gave to the Treasury provides at least a partial answer. It states that a financial inclusion strategy should not only "aim to broaden access to financial services among underserved communities" but also "improve the ability of such communities to use *and benefit* from financial tools and services" (emphasis added). We highlight the phrase "and benefit" as this indicates that the

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[1] "2010 Underbanked Market Size," Core Innovation Capital & Center for Financial Services Innovation, Knowledge Brief, November 2011.
[2] Jennifer Smith Shelton, "Fresh Ideas for an Emerging Market: Highlights of the 8th Annual Underbanked Financial Services Forum," Center for Financial Services Innovation, 2013.

goal of any financial inclusion strategy should not merely be to promote access to financial services but rather to assure that consumers are, in fact, accessing such services and that such services are enabling them to lead healthier financial lives.

This understanding accords with the view of experts who have studied this general subject. As the United Nations Capital Development Fund has observed, there was a time when "the global community made a core assumption that usage of … formal financial services would enable people to grow their resources and climb out of poverty."[3] The Fund goes on to state, however, that the"evidence … suggest mixed results at best in terms of the impact of financial inclusion on the lives of LMI people," and where there are positive impacts, "they are too small to count."[4] Thus, "there is a general consensus that the ultimate objective of financial inclusion is to improve financial lives through creating financial security and increasing control over finances."[5] The Aspen Institute put it this way in its paper calling for the development of a national financial inclusion strategy in the United States: "The immediate goal of building inclusive financial systems is to enhance the financial security of individuals and families," while the longer-term benefits of such systems "could ultimately have a much broader impact, expanding prosperity, fostering greater economic productivity, and enhancing national security."[6]

Given that financial inclusion is now understood as a means to a broader set of ends and that the congressional mandate itself speaks about assuring that underserved communities benefit from financial services, the Treasury may wish to use the term financial security – or, better yet, financial health, in our view – as the object of the national strategy rather than continuing to use the outdated term financial inclusion.

Of course, the terms financial security or financial health are themselves somewhat amorphous and require further definition. Different sources use different words to define these terms (or their synonym, financial well-being), but at their core, these definitions say the same thing. We understand financial security or financial health as encompassing a family's ability to manage day-to-day expenses; cope with adverse events, such as an unexpected expense or loss of income; and secure their financial future. Thus, we believe that the national financial inclusion strategy should seek to ensure that consumers across the economic, racial, and cultural spectrum are accessing products and services in ways that help them manage their financial lives so that they can build resilience and pursue opportunities. Achieving this requires that consumers – and especially those who are financially struggling – access products and services that help them align their income with their expenses; build emergency savings; establish a healthy credit record, so they can access credit when needed; and save, invest, and plan for the future.

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[3] "Delivering Financial Health Globally: A collection of insights, approaches and recommendations," UN Capital Development Fund, July 2021.
[4] Ibid.
[5] Ibid.
[6] "Why Now is the Time for a National Strategy to Build an Inclusive Financial System," The Aspen Institute Financial Security Program, October 2019.

This in turn dictates an expansive answer to the question, "Which consumer financial activities are relevant when considering how to advance financial inclusion?" A national financial inclusion strategy should take into account any and all products that address the ways in which consumers spend, borrow, save, or plan. This includes not just traditional banking products, such as checking and savings accounts and loans, but also new forms of financial services, such as personal financial management tools – including emerging AI-powered tools – and peer to peer payments. It also should consider products delivered by financial institutions other than banks – for example, investment products or property and casualty insurance – and, at least equally importantly, products typically derived through employers such as health insurance and retirement savings products.

Importantly, to be financially healthy, consumers must either have built, or at least be on the path to building, a modicum of wealth so that they will be able to meet their long-term financial goals, such as financing or helping to finance their childrens' education or retiring comfortably. As Professor Darrick Hamilton has written, although "we often think of wealth as an outcome," its "true essence is functional."[7] Wealth "empowers individuals to consume and invest in different ways."[8] Given the inextricable link between financial health and wealth, it seems to us inescapable that wealth-building activities such as purchasing a home or starting a business are directly relevant to whether we as a nation are progressing toward enabling everyone in our country to manage their financial lives effectively.

B. Barriers to Financial Inclusion

Through our experience over the past two decades, the Financial Health Network has identified multiple barriers to financial inclusion.

To begin with, there is the issue of physical or virtual access to core banking services. In our digital age, it may well be that online access to a bank through a smartphone or personal computer can be an adequate substitute for physical access to a bank branch for most consumers. But for that to be true for the underserved, we need to assure that direct deposit and remote deposit capture are both universally available to all workers (so that no one needs to make deposits in person) and also ensure that our payment system allows immediate access to funds that are deposited (thereby alleviating the need for in-person check cashing). Moreover, there are still far too many families who are on the wrong side of the digital divide and who thus cannot use digital means to access financial

[7] Darrick Hamilton, "Testimony Before the Joint Economic Committee Hearing Examining the Racial Wealth Gap in the United States," 2021.
[8] Ibid.

services.[9] For those families, achieving financial inclusion requires either bridging the digital divide or assuring convenient branch access.

For those seeking access to credit, mainstream lenders' reliance on credit reports and credit scores poses a substantial obstacle to financial inclusion. The CFPB's research has established that a sizable share of the population is either "credit invisible," meaning that they have no credit report, or have reports too thin or too stale to score.[10] Among the scorable population, over 25% of the overall population – and more than 50% of Black individuals – have subprime or deep subprime credit scores, which may preclude them from obtaining the credit they need at a price they can afford.[11] Moreover, for many, their lower credit scores may say more about the background from which they come – for example, the way in which they were able to gain entry to the credit reporting system and their ability to rely upon their family's wealth to help them avoid or manage debt – than about their actual creditworthiness.[12] In any event, it is clear that the credit scoring system on which so much underwriting relies perpetuates the effects of this country's sordid history of discriminatory and racist practices.

Perhaps most problematic of all, financial institutions tend to be organized into product silos, with each silo expected to contribute to the institution's overall profitability. Each profit and loss (P&L) owner is pressured to achieve short-term profitability for that owner's individual product so that the institutions can meet the expectations of investors who tend to have short time horizons and so that management can receive bonuses under their compensation plans. These silos and short-term horizons make it difficult for financial institutions to look across products at customer needs, let alone focus on the value of long-term relationships.

The barriers to financial inclusion and the pressure to achieve short-term earnings are by no means limited to the banking system. Employers feel the same pressures, and those pressures manifest themselves in compensation practices. The Brookings Institution found that fully 44% of the workforce are low-wage workers, meaning that they earn less than two-thirds of the median hourly wage, or roughly $35,000 per year.[13] Working off of that definition, the Financial Health Network

[9] Risa Gelles-Watnick,"Americans' Use of Mobile Technology and Home Broadband," Pew Research Center, January 2024. Among those earning under $30,000, 21% lack a smart phone and 43% lack broadband access.
[10] Kenneth Brevoort, Philipp Grimm, & Michelle Kambara, "Data Point: Credit Invisibles," The CFPB Office of Research, May 2015.
[11] Mike Hepinstall, Chaitra Chandrasekhar, Peter Carroll, Nick Dykstra, & Yigit Ulucay, "Financial Inclusion and Access to Credit," Oliver Wyman, 2022. The percentages set forth in text are calculated by excluding the invisibles and unscorables. See also "Consumer Finances in Rural Areas of the Southern Region," The CFPB Office of Research, June 2023. Share of consumers with subprime scores nationally and for majority minority census tracts.
[12] Kenneth Brevoort, Philipp Grimm, & Michelle Kambara, "Data Point: Credit Invisibles," The CFPB Office of Research, May 2015.
[13] Martha Ross & Nicole Bateman, "Meet the Low-Wage Workforce," Metropolitan Policy Program at Brookings, November 2019. The Brookings study used data from 2012-2016, at which time the median was $16.03.

conducted a study of the financial health of low-wage workers.[14] We found that fewer than one in seven of those workers were Financially Healthy. Moreover, we found that their low incomes affected not only their ability to make ends meet, but also their resilience and ability to plan. For example, almost one-third of low-wage workers are not offered any retirement benefits, and 55% of those with access to a retirement savings plan through their employer are not enrolled in the plan, primarily because they feel they do not have enough money to be able to save. Similarly, we found that only one-third of low-wage workers receive health insurance through their employment. This, too, is partially a function of lack of eligibility – more than half reported that they were ineligible – and partially due to lack of participation attributable to the high costs of co-insurance, co-pays, and deductibles.

This list of barriers is by no means exhaustive, but is at least illustrative of the types of barriers that a national financial inclusion strategy should seek to overcome.

C. Measuring Financial Inclusion

Although it may be true, as Albert Einstein is reported to have said, that not everything that counts can be counted, it is even more true, especially in our society, that what gets measured gets managed. Thus, we believe that to be meaningful, a national financial inclusion strategy should encompass a robust system of measurement.

Importantly, such a measurement system must focus not only or even primarily on inputs or outputs – that is, on the number of people accessing or able to access various products and services – but rather on actual outcomes. What ultimately matters, and therefore should be measured, is whether families are benefiting from the products and services available to them – that is, whether they are better able to manage their financial lives and have achieved, or are at least advancing toward, financial health.

The Financial Health Network has devoted substantial resources to developing a set of financial health indicators. We have sought, as much as possible within the context of survey research, to make these indicators objective measures of the respondents' financial situation. For example, through an annual, nationally representative survey, we seek to ascertain:

- Whether a family has sufficient income to cover their day-to-day expenses
- Whether a family has sufficient liquidity to cover emergency expenses
- Whether family members have credit scores that will enable them to obtain credit from a mainstream credit provider
- Whether a family has sufficient insurance to cover catastrophic loss

[14] Beth Brockland & Tanya Ladha, "The Financial Health of Workers in Low-Wage Jobs," The Financial Health Network, 2022. To adjust for inflation, we defined low-wage workers as those earning under $17 an hour, $1.00 more than the definition used in the Brookings study.

- Whether a family is saving for retirement in a way that will enable them to meet their needs

We collect these data annually through a nationally representative survey – the Financial Health Pulse® – and use these indicators (along with several others collected through the survey) to generate what we call a FinHealth Score® from which we are able to place respondents into three financial health tiers: Financially Healthy, Financially Coping, and Financially Vulnerable. This allows us to report each year in our [Financial Health Pulse U.S. Trends Report] on the share of families who fall into each tier and the drivers of year-to-year changes in those percentages. We disaggregate these data along demographic lines so we can report separately on the financial health of, for example, Black individuals, Latinx individuals, and low-income individuals and how these groups are faring.

The Financial Health Network intends to continue and, indeed, to refine this work over the coming years. But we believe that what we are doing is ultimately a task that the government itself should assume. As we have written in a paper published by the Brookings Institution:

> *There is no dearth of data with respect to the financial health of those living in the United States. What is lacking, however, is a single, authoritative measure that is regularly reported on and that can drive a national conversation about how well families are doing and about the extent of our progress, if any, in improving financial health and reducing inequities that divide us on racial, ethnic, and other lines.*[15]

The establishment of a national financial inclusion strategy creates the opportunity for the Treasury to bring together resources from across the government – including not only its own resources but those of, for example, the U.S. Census Bureau, the U.S. Bureau of Labor Statistics, the Board of Governors of the Federal Reserve System, and the Consumer Financial Protection Bureau – to define the key indicators, develop the scale, and establish a robust data collection regime.

We see at least three benefits of developing a systematic effort to measure financial health. First, as suggested above, a robust system of financial health measurement can drive economic policy, and public discourse regarding such policy, for years to come, tying the government to the mast of achieving financial health for all. It will create a means of measuring economic progress writ large and a tool for assessing progress in achieving equitable outcomes, so that no identifiable subgroup is left behind.

[15] Jennifer Tescher & David Silberman, "Measuring the Financial Health of Americans," The Brookings Institution, May 2021.

Second, over the longer term, a systematic program of measuring financial health can alter the way in which a range of entrenched government programs operate. For example, many federal-state partnership programs distribute money to states using a formula that incorporates some measure of household income. Many social welfare programs are means-tested, with eligibility determined solely on the basis of family income relative to some baseline, such as the poverty level or the area median income. A composite financial health metric could provide a more precise tool for crafting eligibility criteria and distribution formulas.

Third and finally, a government program of the size we are envisioning to measure financial health can provide a set of benchmarks against which private-sector institutions and nonprofit organizations can compare the financial health of their employees, customers, and clients. Such measurement is a necessary first step to enable these organizations to develop effective financial wellness programs of their own – within their own workplaces, across a financial institution's customer base, among a healthcare system's patients, or across a student body. Over the longer term, a defined means of measuring financial health could lead to well-defined expectations of these and other institutions in terms of their impact on the financial health of the individuals they touch.

In suggesting that measurement should be a governmental responsibility, we do not mean to suggest that it should be exclusively done by the government. To the contrary, we believe that a national financial inclusion strategy should include robust expectations with respect to measurement at least for financial institutions and employers with respect to how their customers and employees are faring.

One way that these organizations could do so would be by conducting surveys of their customers or employees similar to those that the Financial Health Network conducts among the public at large. Indeed, as discussed further below, the Financial Health Network has created a separate entity, Attune, to automate such data collection and analysis and provide actionable insights for both financial institutions and employers. In addition, financial institutions are uniquely positioned to use administrative data – for example, transactional data from checking accounts, savings account data, or credit bureau data acquired in the normal course of business – to build measures of how their customers are managing their spending, borrowing, and saving. Some financial institutions are already pioneering approaches along these lines, and the Office of the Comptroller of the Currency is working with its stakeholders to develop a set of "objective statistics" – what Acting Comptroller Hsu refers to as "vital signs" – to "quickly diagnose people's financial health in real time."[16], [17]

In this regard, current law poses an obstacle to financial institutions collecting the type of data they need to assess the reach and impact of their lending activities among different racial and ethnic

[16] The Financial Health Network recently published a case study on how BECU, one of the country's largest credit unions, is approaching this challenge. MK Falgout & Zaan Pirani, "BECU: Leading with Data to Advance Financial Health," Financial Health Network, December 2023.
[17] Michael J. Hsu, "Financial Inclusion Successes on the Path to Financial Health," May 2023.

groups. Specifically, Regulation B, which implements the Equal Credit Opportunity Act (ECOA), generally prohibits financial institutions from collecting information on the race, sex, religion, and national origin of applicants for credit, except with respect to applications for mortgages and small business loans, where such information collection is affirmatively required.[18] This prohibition goes beyond anything required by ECOA and does not serve the goal of achieving inclusion on an equitable basis. We have recommended to the CFPB that it reconsider this rule and urge the Treasury, in building out its financial inclusion strategy, to urge the CFPB to do so.[19]

D. Actions to Promote Financial Inclusion

The final section of the RFI solicits information on "examples of existing programs, initiatives, products, or services successful in promoting financial inclusion" and then seeks advice as to what "should be done to improve financial inclusion for underserved communities" and to "enable responsible, equitable innovation … that enhances financial inclusion while ensuring robust consumer protections."

With respect to the first question, the Financial Health Network has launched a number of initiatives that have contributed to making the financial system more inclusive and responsive to consumers' financial health. We already have described our pioneering work in developing a methodology for objectively measuring consumers' financial health and reporting on that annually, as well as our success in creating a separate, for-profit entity, Attune, to enable financial institutions and employers to measure the financial health of their own customers and employees. In addition, we would call the Treasury's attention to several other Financial Health Network initiatives:

- We developed what we termed "Compass Principles" to provide "standards of excellence in the design and delivery of basic tools that people use to manage their daily financial lives" – principles that would allow for products and services that are "profitable and scalable" while "empower[ing] underserved consumers to achieve financial stability and prosperity."[20] Using these general principles, we develop more specific Compass guides for small-dollar credit and for prepaid cards.[21], [22]
- We developed the FinHealth Maturity Assessment Program (MAP), a tool that outlines the essential steps a business should take to implement a mature financial health strategy in order to materially impact its customers' financial health. The FinHealth MAP describes the core components of a financial health strategy (pillars), the process through which companies mature across the components (phases), and the areas of a company that should

[18] 12 C.F.R. § 1002.5

[19] "Response to Request for Information on the Equal Credit Opportunity Act and Regulation B," The Financial Health Network, 2020.

[20] Romy Parzick & Rachel Schneider,"Compass Principles: Guiding Excellence in Financial Services," Center for Financial Services Innovation, November 2014.

[21] "The Compass Guide to Small-Dollar Credit," Center for Financial Services Innovation, April 2014.

[22] "The Compass Guide to Prepaid," Center for Financial Services Innovation, June 2012.

be involved (functions). It thus provides a framework for companies to identify ways they can mobilize internally to increase their impact on the financial health of those they serve.[23]

- Building on our work in financial health measurement and in developing the FinHealth MAP, we have collaborated with J.D. Power to support it in building a Financial Health Support Certification Platform. This platform enables financial institutions to obtain certification from J.D. Power with respect to the institution's commitment to their customers' financial health. The certification is based on data collected from customer surveys as to how well customers feel their financial institution is serving their financial health needs, combined with an assessment of the institution's operational practices and leadership commitment to financial health.

These initiatives are illustrative of some of the elements that might be included in a national financial inclusion strategy to challenge financial institutions to understand what they need to do to drive financial inclusion and financial health and to measure their impacts. We hasten to add that, given our understanding of what financial inclusion means, we believe that financial inclusion is not just the responsibility of the financial sector. It will take an all-of-government – indeed, an all-of-society – effort to achieve a truly inclusive financial system, one which furthers financial health for all. We thus urge the Treasury to think broadly and boldly about what can be done to improve financial inclusion, not just by financial institutions but by the private sector writ large, the nonprofit sector, and the public sector.

It is beyond the scope of this comment to attempt to catalog the myriad actions that we believe will be required by the federal government, state and local governments, financial institutions, employers, and others to achieve a truly inclusive financial system. At the highest level, our national financial strategy should lay out the steps needed to assure that everyone living in this country has the resources to meet their basic needs and the opportunity and capacity to save, invest, and build wealth. That, in turn, requires a focus not only on barriers to access the banking and credit granting system but also on barriers to wealth-building opportunities, including home ownership and entrepreneurship.

We add one final point in response to the RFI's question regarding enabling "responsible, equitable innovation." We agree with what we take to be the implicit premise of this question – that achieving a fully inclusive financial system will require new approaches within (as well as outside) the financial system, including, as the RFI suggests, innovations in data analytic techniques. It is, of course, true that innovations are not inherently positive – the Great Recession was brought about in large part by "innovations" in the mortgage market – and that it is therefore important to keep a watchful eye on how innovations are affecting the financial health of consumers as well as the safety and soundness of financial institutions. With that said, we do believe that regulators are often so attuned to the

[23] Marisa Walster, Nadia van de Walle, Darren Easton, & Mark Feldman, "FinHealth MAP: Building a Business Strategy for Financial Health Impact," Financial Health Network, January 2021.

downside risks of innovation – perhaps fearing the headlines if an innovation runs amok – that they can lose sight of the potential benefits and as a result provide insufficient oxygen for innovators. We thus believe that a national financial inclusion strategy should address means of balancing these competing considerations so that the U.S. can be, if not a leader, at least a fast follower in encouraging innovations that facilitate positive improvements in access and financial health.

Conclusion

The Financial Health Network again thanks the U.S. Department of the Treasury for the steps it has taken to begin the process of developing a national financial inclusion strategy and for the opportunity to respond to this RFI. We look forward to working with the Treasury as it moves forward on this important endeavor.