



Improving Financial Inclusion

After decades—centuries, even—of inaccessibility, financial inclusion takes conscious effort. It's more than demanding someone to pull themselves up by their bootstraps and force themselves through the door.

Because sometimes that door is a wall and sometimes that wall lacks footholds and not everyone has a sledgehammer.

For many, unfortunately, inaccessibility is still familiar, despite notable strides society has made. And it doesn't disappear when the media goes dark. Inclusion is a frequent consideration in workplaces and in college admissions. But what about in financial services?

The truth is, we can do better.

COVID-19 certainly hasn't helped. Many consumers—*both those who have weathered the pandemic well and those who faced financial hardship*—are still struggling to find financial products that fit their needs, demonstrate their creditworthiness, or empower them to benefit from their financial data. Financial technology and the innovation surrounding it not only provides new services and products, but it can also help improve financial inclusion and literacy.

There are three ways this is already happening:

- 1** Access to consumer-permissioned data through open banking platform
- 2** Access to financial products using alternative credit scoring models
- 3** Cash flow analytics that provide a different view of creditworthiness

Finicity

Financial inclusion is the availability and equality of opportunities to access financial services. Many factors can influence financial inclusion, from income level, to community, to immigration status, and beyond.

Open Banking and Consumer-Permissioned Data

A 2019 study from the [University of St. Andrews School of Management](#) gave financial management apps to participants and measured how having those apps affected the participants as compared to a control group.

At the end of the study, the proportion of those who were confident about loan repayments to those who weren't was **17.2 percent higher** in the test group than in the control group. With a little information and guidance, the participants became more confident about their finances—*and that is key to financial inclusion.*

17.2% ↑

Financial inclusion improves when consumers have access to and control over their personal financial data. At Finicity, our open banking platform puts consumers in control of their data, which in turn leads to better financial literacy, inclusion, and outcomes.



Let's take a look at how access and control improve financial inclusion, giving consumers better opportunities to make and reach their financial goals.

Access through Open Banking

In the past, and even still today, consumers' access to their financial data has largely been limited to monthly paper or PDF statements. But recent innovations have improved consumer access, allowing consumers **"to access and consolidate statements electronically and to [better understand their financial situation](#) through personal financial management and budgeting tools."**

How does this increased access help consumers?

With data and fintech apps and services at their fingertips, consumers become more financially literate. It's a simple equation: knowledge plus basic skills plus financial motivation equals better financial behaviors.

In the same [University of St. Andrews](#) study cited above, the authors found that using fintech apps was a gamechanger for the participants: "[The participants] **expressed greater confidence in their understanding of loan repayments and demonstrated improved financial literacy...Those receiving the smartphone apps proved more resilient when subject to a financial shock and were more likely to keep track of their income and expenditure.**"

To help improve financial inclusion, financial institutions can give consumers access to their data through open banking connections and provide fintech apps that help consumers become more financially literate. The standard to aim for is **"account ownership equals data ownership."**

What does this look like in practice?

It looks like consumers being able to give third parties permission to access their financial data on their behalf. It looks like the ability to see and access their data easily within their financial institution's web portal. It looks like consumers reaping the benefits of big data on an individual and household basis.

Financial inclusion improves when consumers have access to their financial data in standardized, meaningful ways. That way, **"individuals and families across the socioeconomic spectrum [have] access to financial tools once reserved for the wealthy. Whether it's personal financial management tools, the ability to contribute data to credit scoring, or participating in peer-to-peer payment platforms, [access to personal financial data](#) changes lives."**

Control through Consumer-Permissioned Data

Once consumers have access to their data, control is the next crucial ingredient for financial inclusion. Historically, consumers haven't had much control over how their data is used, who has access to their data, how frequently their data is accessed, or how long their data is retained. Without control, access doesn't mean much.

Today, consumers have **more control over their data than ever**. Consumers are now able to “opt-in” their financial data, which can help streamline the loan-application process, give them access to **better loan terms, and improve their generic credit scores**.



This level of control is possible through [OAuth connections](#) that provide tokenized access so consumers can permission and revoke these tokens at any time from the financial institution. Tokens also keep account details with the financial institution enhancing security and lowering risk.

With this relatively high level of control, what should be next to improve financial inclusion?

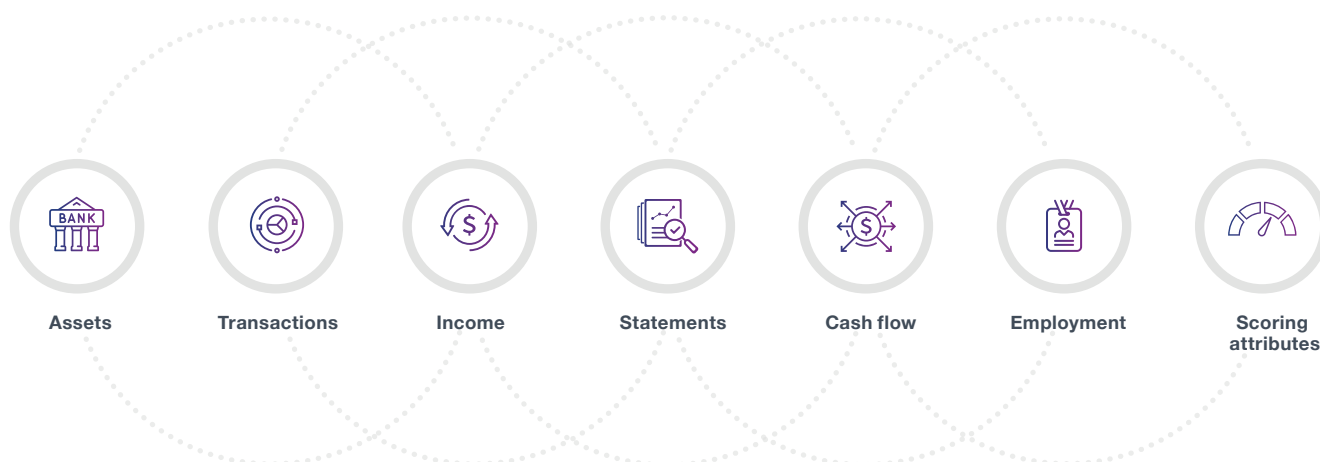
Informed consent is a good place to start. Consumers need to have intuitive navigation experiences using language that is easy to understand. It's not informed consent if consumers don't understand the information!

To make informed consent possible, financial institutions should provide a standardized permissions interface. [Consumers should be able](#) “to easily view, modify, add, and revoke permissions across their library of financial services. When permissions are buried out of reach, consumers do not have the control they deserve. Power only exists when control can be exercised and managed.”

Access and Control in Practice

At Finicity, we aim to help financial institutions and consumers improve financial inclusion through consumer access and control. To improve consumers' access to and control over their financial data, we've connected financial institutions and payroll providers via financial data APIs, enabling consumers to permission their data for use in third-party applications or solutions.

For example, our [Finicity Lend™](#) solution set gives consumers and lenders access to the following data:



This data can be used for **everything from personal loans to small business loans**. It's real-time data that consumers can grant third parties access to in order to speed up the loan process. Finicity provides this data so it's FCRA-compliant and consumers can see the data used and dispute any inaccuracies.

Its usefulness doesn't end there, though. This data can also be used in **just about any financial app, from budgeting to accounting to investments to account initiation and payments**.

Apps and services like these help improve financial inclusion. As [the University of St. Andrews study](#) found, people with access to this wider range of information experience:



Alternative Credit Scoring and Access to Financial Services



According to [FICO](#), 79 million people in the U.S. have [credit] scores below 680, a common lender threshold of acceptable credit. And 53 million people in the U.S. do not have enough data in their credit files to generate a FICO Score.

With low scores or no scores, these tens of millions of Americans don't have access to loans to help them take the next step in their financial journey. Additionally, many Americans don't have access to other financial products and services that could help them be more financially stable.

These consumers aren't seeing the benefits of [financial inclusion](#) or, as the [World Bank](#) puts it, “**access to useful and affordable financial products and services that meet their needs—transactions, payments, savings, credit and insurance—delivered in a responsible and sustainable way.**”

While these consumers may not have credit in the traditional sense or access to financial services, many have money flowing in and out of their accounts and may be perfectly [capable of repaying their debts](#).

So how can financial inclusion improve to include those who would be excellent candidates for financial products and services, even if their credit scores are low or nonexistent?

Here are **two** crucial ways to improve financial inclusion:

1

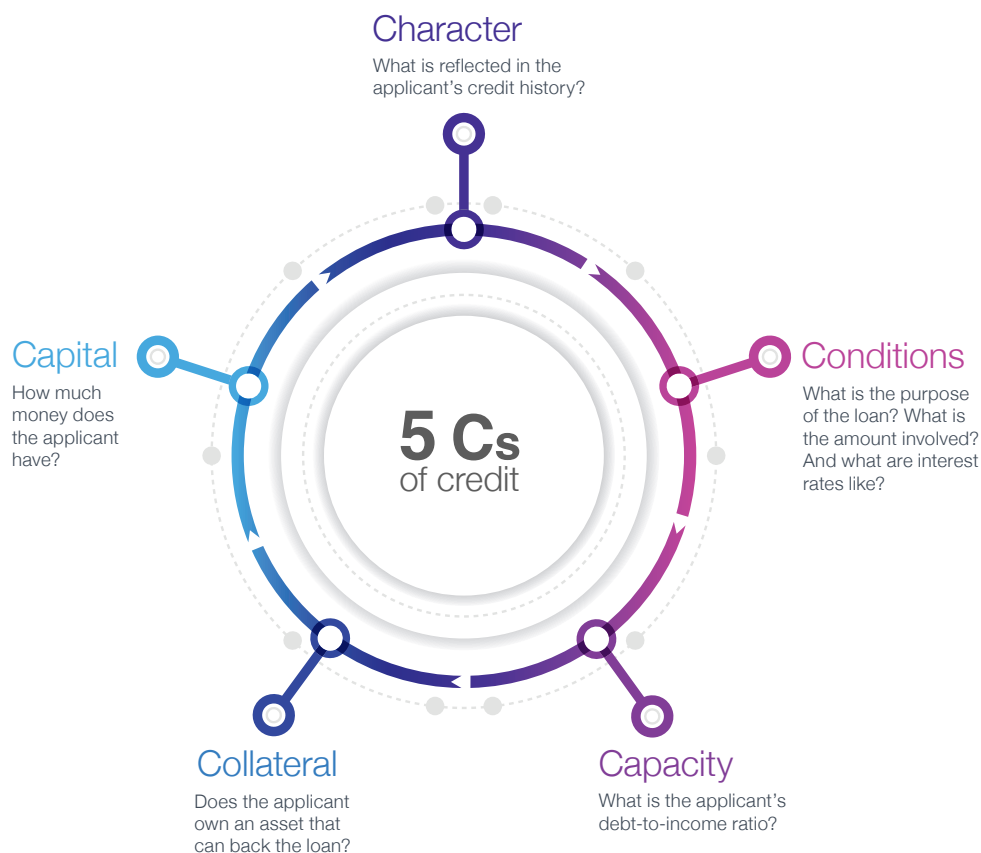
Financial institutions need to look at the whole picture of financial health—not just the traditional measures of creditworthiness or simply the propensity to repay.

2

Consumers need to have access to financial services and products in place of high-risk, nontraditional lenders or accounts.

A Holistic Picture of Financial Health

Currently, lenders gauge creditworthiness by looking at the **five Cs of credit**:



While these five Cs are definitely good indicators to take into account, financial institutions miss out on lending opportunities when these are the only criteria they look at. Lenders should look at the whole picture of financial health, which includes indicators besides good credit. These can include bank account health, responsible spending behavior, and bill payment history.

Bank account health is a great indicator that consumers are responsible with their finances:

- They are prepared for financial crises.
- They don't overspend and they have started a retirement account.
- They have both a savings account and an emergency savings account.
- They **stay above the minimum balance requirement** for checking accounts.

When consumers demonstrate responsible spending behavior, they avoid **lifestyle inflation** and stick to a budget. Their expenses do not exceed their income.

Bill payment history not related to credit may include utilities, internet and phone, and subscriptions. If consumers are paying all their bills and paying on time, they're likely a good candidate for financial services.



Financial inclusion improves when financial institutions look at the whole picture of financial health and not just the traditional measures of creditworthiness or simply the propensity to repay.

High-Risk Loans

Currently, consumers with low or no credit typically have access only to [high-risk loans](#). These loans often charge high fees and interest rates, may require big-ticket items for collateral, and may put a cosigner on the hook if the loans are not repaid.

Payday lenders, for example, can legally charge annual interest rates of up to **400 percent**. Clearly, high-risk loans are not a sustainable way for consumers to improve their financial situation.

400% ↑

On the other hand, the best loans out there are typically available only to people with high credit scores. While interest rates are currently very low, **“borrowers will likely face stricter lending standards as lenders try to protect against the coronavirus downturn,”** writes [Zina Kumok for U.S. News](#). While these loans are great options for those who qualify, standards for qualification are high and unattainable for many borrowers.



Financial inclusion improves when borrowers have access to financial services and products in place of high-risk, nontraditional lenders or accounts.

Bridging the Gap between Financial Exclusion and Financial Inclusion

To bridge the gap between what is currently available and what could be available, consumers and lenders need to have access to expanded data. This data can be provided through transactions and account details via open banking connections. Two examples of this solution are **Experian Boost** and **UltraFICO**:

experian. | **Boost**

Experian Boost taps into consumers' alternative financial data to:

- Raise **FICO**® Scores quickly
- Give credit for paying non-credit-related bills
- Give consumers free access to their **Experian** credit report and **FICO**® Score
- Provide Experian credit monitoring and alerts

ultraFICO

An **UltraFICO**™ Score aims to enhance consumers' FICO® Scores by taking sound financial behavior into account. If consumers consistently have cash on hand and their accounts maintain a positive balance, their UltraFICO™ Score may actually be higher than their FICO® Score. According to UltraFICO™, there are “15 million people in the U.S. who can receive an **UltraFICO**™ Score, even if [they] don't have enough credit history to generate a FICO® Score.”

These services are readily available through secure online portals. And an UltraFICO™ Score is generated instantly, giving you access to good credit decisioning as soon as you need it. With the ability to improve or create traditional credit scores, consumers have greater access to traditional loans and lower interest rates, giving them a boost towards their financial goals.

Our **Finicity Lend**™ data services are another resource to improve financial inclusion. Made possible by open banking, Finicity Lend gives consumers the power to permission data access and gives lenders access to the data they need to make credit decisions. With Finicity Lend, lenders can make decisions that benefit them and consumers, and consumers are empowered to be fully involved in the process.

Cash Flow Analytics

For a consumer to make credit payments consistently over time, they would have money moving in and out of their accounts. The traditional risk assessment methods, however, will likely consider only the payments on their debt, effectively limiting who can get credit, even if they're capable of repaying.

That's a missed opportunity.

By considering cash flow data in determining creditworthiness, lenders have the opportunity to improve financial inclusion as well as gain deeper insights into consumers' financial habits.

Financial Inclusion and Insufficient Creditworthiness Assessment

Recent research has revealed that discrimination is still present in the financial services industry, and therefore hinders financial inclusion. [Data collected through the Home Mortgage Disclosure Act](#) (HMDA) found that lenders deny mortgages for Black applicants at a rate 80 percent higher than that of White applicants.

While some of these denials may be attributed to outright bias, others may be a result of the wealth gap:

"We know the wealth gap is incredibly large between white households and households of color,"
said Alanna McCargo, the vice president of housing finance policy at the Urban Institute in a [recent New York Times article](#).

"If you are looking at income, assets and credit—your three drivers—you are excluding millions of potential Black, Latino and, in some cases, Asian minorities and immigrants from getting access to credit through your system. You are perpetuating the wealth gap."

In addition to the racial discrimination that certainly (and frequently does) excludes consumers from access to financial services, so can young age. In fact, according to the [Consumer Financial Protection Bureau](#) (CFPB), almost 40 percent of credit invisible consumers are younger than 25.

40%
Younger than 25

McCargo proposes a way forward, suggesting that **"government regulators and banks in the secondary mortgage market must rethink risk assessment: accept alternative credit scoring models, consider factors like rental history payment and ferret out algorithmic bias."** There's certainly room for the secondary mortgage market to augment the data it considers in risk assessment as well as hone their processes to eliminate bias and enhance inclusion.

And the opportunity is also open to primary lenders to make the mortgage process more inclusive from the start, which will only widen the market for them by finding ways to serve more consumers.

What Is Cash Flow?

Income, employment, assets, and credit history only provide a glimpse of a consumer's financial story. Improving financial inclusion requires going beyond traditional credit scoring models to paint a more complete picture of a consumer's financial habits.

Cash flow analytics breaks down a borrower's credits, debits, and balances to reveal how money is moving in and out of consumer accounts. Understand that movement, understand how the borrower spends money. Understand how the borrower spends money, understand their risk.

Gathering cash flow data requires open banking technology that both empowers consumers and enriches the decisioning process for lenders. Following a consumer permissioning experience, the third party receives real-time data, via the open banking platform, which shows trending and balance insights, inflow and outflow transaction streams, a credit vs. debit analysis, and identification of potential transactions from other lenders.

The approach to cash flow analytics may differ from business to business. Cash flow data in almost any context will benefit both financial service providers and consumers. As an example, Finicity's cash flow analytics can be used to:



Automate underwriting

processes, eliminating the time and costs of manual work

Provide up to 24 months

of real-time, accurate, bank-validated cash flow data

Open up new lending

opportunities with a more comprehensive picture of financial history

Provide FCRA-compliant

data from personal accounts for responsible lending

Easily inform cash

flow forecasts and other financial models

Enhance the customer

experience with simpler, more convenient processes

How Cash Flow Improves Financial Inclusion

Cash flow analytics offer one layer of the alternative credit scoring model suggested by McCargo. Even credit invisibles and consumers with thin files who haven't built a credit score through traditional methods can gain access to financial services with the clearer financial picture offered by cash flow data.



While many creditworthiness assessments only consider debt payments, cash flow analytics allow service providers to see every transaction in an account. With access to more data, providers can more accurately see how consumers handle finances, rather than relying solely on the potentially limited credit the consumer may have. This more holistic picture reveals whether a consumer is a low risk for a loan because they have room in their budget and can handle extra expenditures.

And all the borrower needs is a checking account. For those with thin files like immigrants, consumers under 25, and those in low-income communities, cash flow offers an alternative perspective on a borrower's financial history, one that may compensate for a lack of traditional credit history. For those who experience discrimination in lending, cash flow can compensate for the wealth gap by displaying a borrower's financial responsibility.

Using an alternative measure like cash flow can help **118 million consumers through real-time measurement directly from their bank accounts.**

Ultimately, by analyzing how consumers spend and save, expanding risk assessment can expand opportunity and inclusion.



In addition to fostering inclusion for the young and the discriminated, cash flow also enhances inclusion for consumers ostracized from credit access because their traditional credit history may not tell their whole story. Cash flow helps the consumer who had credit troubles years ago, but has increased their savings and is growing their discretionary income over time by managing their money correctly, but who the traditional creditworthiness models will inaccurately assess for seven years. Contrast this with the consumer who has a good credit score because they've made timely payments, but they're drowning in debt and losing their discretionary income.

At a higher level, cash flow analytics, along with other **open-banking solutions**, can streamline lender processes with high-quality, comprehensive data that produces deeper insights and improves overall decisioning. Borrowers benefit from these solutions, too. In addition to the increased access to credit, consumers can also experience less friction and empowerment with more control over and greater literacy surrounding their financial data.

Improving financial inclusion for all will require change throughout the entire financial services industry.

But it's worth the effort.

Recent immigrants can apply for credit cards and access financial services, even while being credit invisible. Millennials can reach significant financial milestones like buying a car or a home.

Accurate, comprehensive data can objectively establish the worthiness of the marginalized, who may have lost financial opportunities or been charged more because of bias or prejudice.

Open banking can **build a more inclusive economy** that benefits all.

See these open banking, lending, and cash flow capabilities in action by [**requesting a demo.**](#)

Finicity