



Why Now is the Time for a National Strategy to Build an Inclusive Financial System

Takeaways:

- Only 28% of Americans are considered financially healthy amid historic economic growth.¹
- Government agencies focused on financial services regulation and provision are responding to consumer demand and technological innovation by exploring rulemaking and systems changes – presenting the opportunity to establish inclusion as a fundamental component, rather than post-hoc extension, of the future financial services system.
- The field of financial inclusion has expanded from a focus on access to include the measurement of household-level outcomes, allowing for more precision in the development and delivery of financial solutions.
- The US trails other countries around the world in its lack of a comprehensive financial inclusion strategy.
- Big tech companies are attempting to enter the financial services arena to address challenges facing those excluded by the financial system, and the US Government lacks a comprehensive strategy to assess and evaluate the merits and risks of such entries.
- The US Government has the opportunity to boost the well-being of individuals and the nation and become a global leader in financial inclusion by establishing a government-wide strategy that would centralize inclusion as a foundational principle of our financial services system.

ABOUT ASPEN FSP

The Aspen Institute Financial Security Program's (Aspen FSP) mission is to illuminate and solve the most critical financial challenges facing American households and to make financial security for all a top national priority. **We aim for nothing less than a more inclusive economy with reduced wealth inequality and shared prosperity.**

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The Case for Building an Inclusive Financial System in the US

Financial insecurity is rife in the United States. Amid the longest period of sustained economic growth in modern US history, millions of American individuals and households are struggling to find financial stability in the short-term and security in the long-term. Safe, affordable, and responsibly-provided financial services can strengthen a family or an individual's ability to make their own choices and exert control over their circumstances. But not all financial services are accessible, safe, or produce good outcomes for consumers. And too many people in the United States—over a quarter of American households—are not fully engaged with the financial services and products they could benefit from, because they don't have the means to access financial products and services, or because the products presented as most accessible are, in fact, predatory.ⁱⁱ

An inclusive financial system provides everyone with the ability to access, properly utilize, and reap the benefits of a full suite of financial services that can help households to build short-term stability and long-term financial security. This is a well-functioning system of interrelated stakeholders in the public, private and social sectors providing consumers with safe, affordable and useful financial products and services ranging from payments to short- and long-term savings vehicles, credit, investments and insurance, and protecting them from bad actors.

The opportunity to shape the financial services system is radically different today than it was even ten years ago. Through rapid advances in technology, government agencies' engagement in and support for responsible innovation, a focus on quantifiable metrics of household financial outcomes, and the prospect of crucial faster payments infrastructure, financial systems are today evolving in real time. **This moment provides a powerful opportunity to intentionally build the next generation of financial systems that are structurally, rather than post-hoc, inclusive.** Put simply, now is the time to build the financial system of the future for *everyone*.

For many reasons, now is the time for the United States to take deliberate, coordinated action to build an inclusive financial system:

- Significant portions of the US population feel left behind by the economic system, having significant implications for our democracy and economy.
- Technology has created enormous opportunities to expand access to and usage of digital financial services and has already contributed to significant progress. However, digital financial services also produce enormous data trails which, if used inappropriately, have the potential to exacerbate or deepen divisions within the financial system.
- Big tech companies are entering the financial services arena, pointing to financial inclusion as a primary motivation. The government needs a strategy for inclusion to maximize the potential and mitigate the risks of these potential new entrants.
- The changing nature of the economy will require new approaches that can't be achieved without improved interagency collaboration. For example, the growth of the "gig economy" is putting important employer-based financial benefits out of reach for many, and modernizing that framework will require collaboration across agencies.
- Global movement toward regulation of personal data access and data privacy requires a new level of thoughtfulness about household financial data and data-powered tools and how to balance consumer protection with innovation that can lead to better household outcomes.
- New methods of quantifying and measuring household financial outcomes allow for a higher level of goal-setting than simple access to bank branches or accounts.
- Corporate leaders in financial services are publicly embracing social responsibility in an unprecedented way.
- After the longest period of economic growth in modern US history, a recession is likely due, and consumers will need access to tools to navigate a potential downturn.

The Benefits of Inclusive Financial Systems

The immediate goal of building inclusive financial systems is to enhance the financial security of individuals and families at the household level. But the benefits could ultimately have a much broader impact, expanding prosperity, fostering greater economic productivity, and enhancing national security.

Expanding Prosperity

A wider and deeper engagement with financial services can lead to increased wealth and greater financial security for families at all stages, as some people move into the mainstream for the first time and others move into more sophisticated products, such as insurance and retirement savings programs. Inclusive financial systems expand choice by driving competition and innovation, while empowering consumers to achieve higher levels of well-being.ⁱⁱⁱ Additionally, in America's consumer-driven economy, household financial health has significant macroeconomic implications – recent studies show a correlation between consumer financial health and our boom/bust economic cycles.^{iv}

Fostering Economic Productivity

An inclusive financial system can foster greater economic productivity by enabling individuals to pursue economic gain and to invest in themselves and their communities. Greater access to high quality, consumer-friendly credit can give people the tools to successfully buy homes, pursue higher education, and start businesses; all of these individual actions have broad repercussions that benefit communities and the economy overall. Conversely, when people cannot make efficient payments for goods and services, they may not be able to complete contracts with businesses or third parties, thus reducing net economic activity.^v

Enhancing National Security

Pulling more people into the financial mainstream and moving their economic activity from more informal to formal markets reduces social and political isolation. It also moves informal, underground transactions into the supervised marketplace, reducing opportunities for criminal activities and other undesirable outcomes.^{vi}

Establishing a National Strategy for Inclusive Financial Systems

Financial Inclusion has been embraced and elevated as a priority policy reform issue on the global development agenda in recent years. Sadly, the same cannot be said in the United States. There are multiple agencies in the US at local, state and federal levels that are demonstrating leadership and dedicating resources to improving the financial security and well-being of American households. These efforts, while extremely important, are only loosely coordinated, follow no overarching strategy, and remain largely separate from (and irrelevant to) the dominant framework and narrative that shape the country's domestic and international economic development priorities and agenda.

Millions of public and private dollars are spent each year on efforts to expand access to the traditional financial system in the US. While these efforts are often beneficial to service recipients, they are not designed or executed in a collaborative manner, nor do they operate under any shared strategy. **The opportunity now before us, as market and regulatory innovations continue to reshape financial services, is to frame inclusion not as an extension of existing systems, but as a fundamental principle of the future financial services ecosystem.** For this endeavor to be fruitful, platforms for collaboration or cooperation are needed. The lack of overarching strategy around establishing inclusion as a central operating principle for the future financial services ecosystem – and its absence from the mainstream list of issues that can drive, deepen or derail economic growth – is a missed opportunity for the US Government, its citizens, and its interests abroad.

As agencies across the regulatory and political landscape explore opportunities to build inclusion into the future financial services ecosystem – from the Federal Reserve’s foray into Faster Payments, to proposals from leading Democratic 2020 candidates around Postal Banking, the Department of Labor’s work expanding retirement plan coverage, to the Office of the Comptroller of the Currency engagements around the Financial Technology (FinTech) ecosystem, to renewed interest from regulators in reforming the Community Reinvestment Act - what’s needed is a shared strategy and platform for understanding, measuring, and evaluating the effects across this range of efforts.

With government-driven coordination, the public, private, and nonprofit sectors can work more strategically, designing and executing on a strategy for inclusive financial systems that can serve as a springboard for promoting financial well-being at the household level, along with a range of important national priorities. As the number of public and private sector leaders who commit to embracing more inclusive growth policies continues to grow, the US Government has an exceptional opportunity to help chart the course by pulling together and coordinating the agencies who are already playing, or should play, a role.

The Opportunity: A National Strategy to Build an Inclusive Financial System

The challenge of fostering a whole-of-government approach to building inclusive financial systems – an issue that is naturally impacted by multiple parts of government – is not unique to the US. One best practice that has emerged to address this is **the establishment of an interagency commission responsible for establishing and executing against a national strategy for building inclusive financial systems.**

As of 2018 over 35 countries have implemented national financial inclusion strategies.^{vii} While each is unique, these experiences provide a set of case studies from which to distill best practices and identify relevant lessons for US Government efforts at home and abroad. Models such as the UK’s Financial Inclusion Taskforce provide a helpful template.

What we propose is an analogous model to these international examples, but one better suited to the highly developed, yet not fully inclusive, US financial services ecosystem. The challenge of building a wholesale financial services system like those stood up recently in Sub-Saharan Africa, India, and elsewhere, is much different than establishing a collaborative, coordinated set of work across a sophisticated and complex network in the US.

What Would Such a National Strategy Look Like in the US?

There are many ways to structure and execute on a strategy to build inclusive financial systems. Most important to this process is having a shared set of goals and the right accountability and incentives to drive a broad set of stakeholders collaboratively toward a north star. To be most effective, major systems (e.g. private sector competition and innovation, technology, regulation, supervision and enforcement of consumer protection laws, the spectrum of financial services provided by both the private and public sectors, credit bureaus, payments systems, etc.) must work together to deliver true financial inclusion (i.e. full spectrum product access and successful usage, resulting in financial security outcomes). Below are laid out the fundamental components of such a strategy.

Stakeholders

Given the developed nature of the US economy, financial system, and financial regulatory regime, a successful strategy to build an inclusive financial system in the United States will require engagement from actors from government, the private sector, and the social sector. Coordinating these numerous and diverse players may require different approaches for each group. The government is best positioned to function as the nexus at which all of these sectors coordinate toward a set of overlapping and overarching goals.

Government	Private Sector	Social Sector
Executive Departments	Incumbent Financial Institutions	Non-Governmental Organizations
Independent Regulators	New entrants (FinTechs, etc.)	
State and Local Government	Infrastructure providers	
Congress	Investors	

Activities

Four main pillars of activity are important to pursuing a national strategy for inclusive financial systems, which has its foundation in the US Government:

1. **Develop a Strategy:** Legislation should call for the establishment of a national strategy for inclusive financial systems and empower a newly created interagency structure to further develop and execute on that strategy. It should also require that agencies designated as members of the entity establish their own supporting strategies that collectively roll up to a national strategy. Legislation should specify key attributes to be included in the framework, such as that it should be comprehensive (clearly laying out all stakeholders, systems, and policy decisions that impact the achievement of widespread financial inclusion), detailed with milestones and targets, and clear with regard to who is responsible for what.
2. **Establish an Interagency Structure:** Create a commission, task force, council or other similar interagency entity to take ownership for this strategy. The body should be responsible for developing a comprehensive strategy, establishing goals and success metrics, assigning responsibilities, tracking progress, and issuing regular reports. It should be comprised of senior leadership from relevant federal agencies but should also include perspectives from outside of government, potentially through the establishment of an advisory group. The body should be given the authority, mandate, and resources to actively foster interagency progress against this issue. In addition to establishing such a body, legislation should specify its governance structure, membership, authorities, and responsibilities.
3. **Set a North Star:** Members and stakeholders of the interagency structure described above should also establish a North Star for the effort, defining at a high level the desired goals for access, usage, and outcomes, aided by new methods of measuring financial health. While the commission can identify specific targets and indicators and the systems and intermediate steps necessary to achieve desired outcome goals, legislation should at a minimum establish a broader vision.

- 4. Track Progress:** Legislation should require regular reporting to the public and Congress regarding the state of inclusive financial systems and progress against the strategy. This could require new ongoing data collection efforts specifically tailored to the objectives established in the strategy. In light of the new forms of outcomes measurement, Congress could consider requiring the establishment of an Inclusive Financial Systems Scorecard that provides a recurring snapshot of the state of financial inclusion.

Together these components would help establish a strategy for this issue that is action-oriented, comprehensive, and ambitious.

Recommendations

Several stakeholders are well-positioned to act to pursue a comprehensive, whole-of-government strategy for inclusive financial systems. Here are our recommendations for action across these groups:

- **Congress:** Pass legislation establishing an inter-agency structure to develop a national strategy.
- **Executive Branch and Independent Regulators:** Conduct an internal review of each agency's authorities and activities that impact financial inclusion, to prepare for engagement with an interagency commission. Reinstitute annual policy forum and other interagency forums for sharing best practices and coordinating activities relevant to building inclusive financial systems.
- **Private Sector:** Establish an independent commission, funded by the private sector, to build momentum toward a national strategy for inclusive financial systems.
- **Social Sector:** Conduct policy research and further case-making to broaden consensus and reach of a strategy for building inclusive financial systems.

International Implications

Financial Inclusion is a significant goal on the global development agenda, and as part of the G20 Sustainable Development Goals receives significant attention and investment from the World Bank and International Monetary Fund, among other global bodies.^{viii} In the US, financial regulations, institutions, and development investments carry such a global impact that a national strategy must facilitate conversation and alignment between US policies impacting financial inclusion domestically and those impacting financial inclusion around the world.

For example, guidance around Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) set by the Financial Action Task Force, while intended to provide security for the global financial services system, have instead created an atmosphere where banks are closing accounts of money transfer companies, non-governmental bodies, and other critical development players because of newfound risk under these laws. Such "de-risking" has generated headwinds against efforts to expand access and usage of formal financial services in the developing world. As mainstream companies have had to close their accounts due to such policies, communities revert to more informal systems such as the "hawala" system prevalent in places like Afghanistan and Somalia, undermining US security interests.^{ix}

This conversation and alignment can be accomplished primarily in the context of a shared learning agenda, to be facilitated and supported by both governmental and non-governmental groups.

CONCLUSION

Conclusion: Momentum is Building

Financial Inclusion has generally been regarded as a non-partisan issue, with support from both parties as well as from the private sector.^x Under the Obama Administration, the US successfully advocated for the G20 to establish the Global Partnership for Financial Inclusion, a G20 platform the US continues to support today. And at an April 2019 conference, Treasury Secretary Mnuchin reconfirmed Treasury's commitment to this issue, noting that it remains a priority. Meanwhile, in the private sector prominent companies across FinTech and financial services have continually encouraged greater federal government leadership on this topic.

On May 31st, 2019, five years after USAID and the US Treasury Department hosted their Financial Inclusion Forum to explore the role the US Government might play in advancing financial inclusion, the Aspen Institute brought together a group of cross-sector leaders from across the financial inclusion space for a workshop to explore the potential for a government-wide financial inclusion agenda. Representatives from across the sectors listed above showed concerted energy to act in support of and in collaboration with a government-wide strategy. Representatives from across the sectors listed above showed concerted energy to act in support of and in collaboration with a government-wide strategy, leading the Aspen Institute to produce this piece to further drive the ecosystem toward such shared efforts.

A comprehensive national strategy that centralizes inclusion as a fundamental component of our financial services system presents a real opportunity to promote widespread prosperity. Financial inclusion is a much broader issue than simply having a bank account, and directly impacts the majority of families in the US. Having an inclusive financial system ultimately supports household financial security, individual financial well-being, and the economic vitality of the nation.

ENDNOTES

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