Public & Social Sector Practice

The case for accelerating financial inclusion in black communities

A lack of financial inclusion for black Americans exists at every level of the financial system. Understanding the sources of exclusion is the first step to fixing the system.

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As of 2016, the average black American family had total wealth of $17,600—less than one-tenth the wealth of the average white American family, which stands at $171,000 (Exhibit 1).[1] This gap leaves many black families at a significant economic disadvantage, with less financial security and less ability to fully participate in the economy. Less wealth also means black Americans are underrepresented in the market for financial products and services.

A lack of access to financial services is not just a symptom of the racial wealth gap; it is also a cause. Without the ability to affordably save, invest, and insure themselves against risks, many black families struggle to translate the income they earn into wealth. As International Monetary Fund Deputy Managing Director Mitsuhiro Furusawa stated, "Financial inclusion is the bridge between economic opportunity and outcomes" (Exhibit 2).[2]

But building that bridge has not been easy. Black families have faced the compounding effects of decades of exclusionary policies and programs that have contributed to the racial wealth gap (Exhibit 3). This article explores the ways in which the lack of financial inclusion contributes to and perpetuates the racial wealth gap; it also identifies how greater access to financial services could be central in closing the gap.

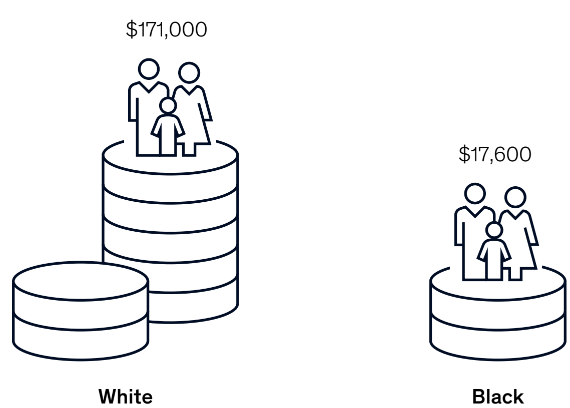
Fundamentally, improving financial inclusion would help address historical challenges and better equip black families for today. Exclusionary policies and strategies, from limited access to federal mortgage lending to geographic barriers to physical bank

[1] 2016 dollars; 2016 Survey of Consumer Finances, The Federal Reserve, September 2017, federalreserve.gov.
[2] "Financial inclusion: Bridging economic opportunities and outcomes," International Monetary Fund, September 20, 2016, imf.org.

Exhibit 1

A wide and persistent wealth gap exists between black and white American families.

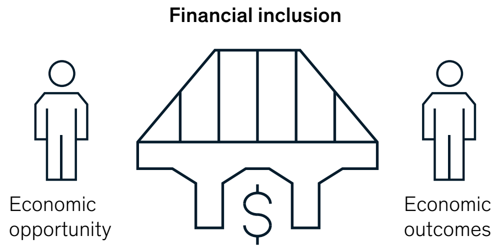
Median family wealth by race, 2016



Source: The Federal Reserve

Exhibit 2

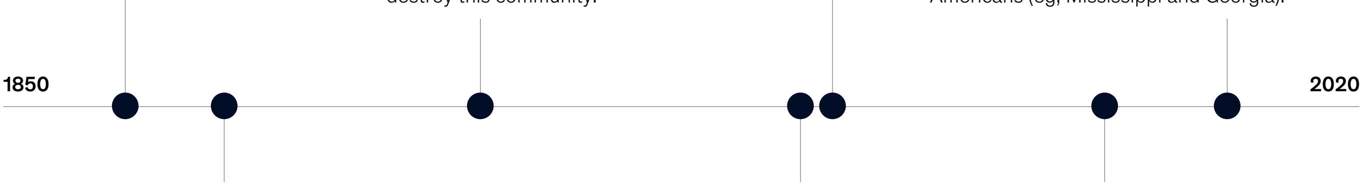
Financial inclusion is the critical bridge between improved economic opportunity and improved economic outcomes.



Source: The International Monetary Fund

Exhibit 3

Select events, policies, and practices have made financial inclusion challenging for black Americans.



1874
The Freedman's Savings and Trust Company collapses because of corrupt management, with $2.9 million in deposits due to more than 60,000 primarily black depositors, driving a major loss of trust in banks by community members.

1881
Insurance companies practice explicit discrimination by declaring that policies held by black customers are worth 1/3 of the value of equivalent policies held by white customers.

1921
A vibrant community of black-owned businesses in Tulsa, Oklahoma, grows into "Black Wall Street"; however, violent riots from white residents destroy this community.

1934
Redlining, the systematic practice of excluding black homeowners from mortgage lending, formally begins with the passage of the National Housing Act. More than 98% of $120 billion in federally backed mortgages goes to white homeowners from 1934 to 1962. Redlining not only excludes black homeowners from mortgages but keeps them from owning properties in desirable neighborhoods.

1935
The Social Security Act provides a social safety net for millions of workers but excludes occupations predominantly filled by black workers and other minorities. The National Labor Relations Act permits unions to exclude people of color from collective bargaining.

1969–present
Welfare reform policies exacerbate the racial wealth gap, primarily at the expense of poor black families, first through overt exclusionary policies, next by stigmatizing black poverty through tropes such as the "welfare queen," and, since the mid-1990s, through the unintended consequences of shifting from federal responsibility to the current, state-centered model.

2013–present
The Affordable Care Act enables states to expand Medicaid eligibility. By 2014, more than 50 percent of all black Americans lived in the 23 states that had not yet expanded Medicaid coverage. Among the 14 states that have not yet expanded or planned to expand coverage in 2020, the majority are southern states, which have some of the largest populations of black Americans (eg, Mississippi and Georgia).

Source: *The Atlantic*; BlackPast; California Newsreel; History.com; JSTOR Daily branches, have hindered black economic well-being. For example, nearly half of black households are unbanked or underbanked (Exhibit 4)[3]—a disparity that, over the course of a financial lifetime, can cost nearly $40,000 in fees.[4]

Disparities such as these have tangible and far-reaching implications for black families. Improving financial inclusion is not only our collective, societal obligation to support American families that have too often been historically marginalized but also a critical step in supporting the future economic livelihoods of black families. Moreover, increased inclusion of black Americans in the financial system would benefit the entire economy: black families would have greater opportunities to reinvest and grow their wealth and, subsequently, support increased economic activity.

The inclusion of black families in the financial system would also create new opportunities for financial services companies. Our research shows that financial institutions could realize approximately $2 billion in incremental, additional annual revenue if black Americans had the same access to financial products as white Americans. If black Americans reached full parity in terms of wealth with white Americans, financial services companies could realize up to $60 billion in additional revenue from black customers each year.

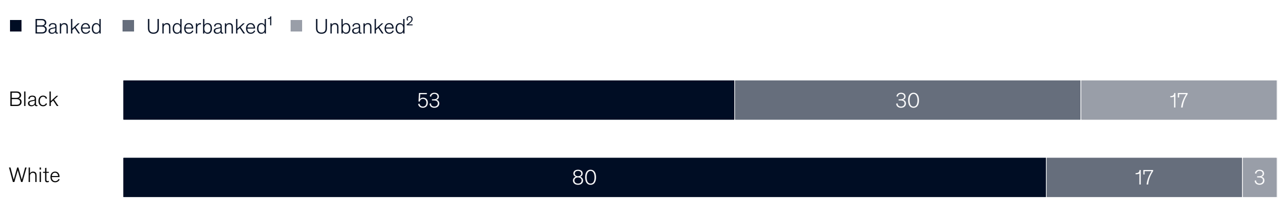
As the world evolves, financial services companies should view financial inclusion of black Americans as a critical business imperative. In a time of severe economic inequality, companies that lead the way in creating solutions for black communities have an opportunity to build an enduring legacy that is aligned with consumer demand; indeed, 64 percent of Americans say that a company's primary purpose should be making the world better,[5] and by 2043, the majority of Americans will be people of color (POC).[6] In addition, our present moment represents a meaningful opportunity to counter decades of exclusionary practices and rebuild trust with black communities. Doing so could improve the competitiveness of financial services firms *and* accelerate financial inclusion for black families.

[3] "2017 FDIC national survey of unbanked and underbanked households," FDIC, October 2018, fdic.gov.
[4] Matt Fellowes and Mia Mabanta, *Banking on wealth: America's new retail banking infrastructure and its wealth-building potential,* Brookings Institution, January 2008, brookings.edu.
[5] Alan Murray, "America's CEOs seek a new purpose for the corporation," *Fortune,* August 19, 2019, fortune.com.
[6] Valerie Wilson, "People of color will be a majority of the American working class in 2032," Economic Policy Institute, 2016, epi.org.

Exhibit 4

Nearly half of black households are unbanked or underbanked.

Banked rates among black and white households (2017), %



[1] Do not have sufficient access to mainstream financial services and products typically offered by retail banks.
[2] Not served by a bank or similar financial institution.

Source: Federal Deposit Insurance Corporation (FDIC)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The five pieces of the financial inclusion puzzle

The World Bank defines financial inclusion as the condition when "individuals and businesses have 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."[7]

Many public and private institutions across the globe are actively championing greater financial inclusion in marginalized communities. These institutions include nonprofits such as Prosperity Now and Accion, private institutions such as JPMorgan Chase's Financial Solutions Lab and Advancing Black Pathways program, and nongovernmental efforts such as the World Bank's Financial Inclusion Global Initiative. Building on their efforts and drawing on the experiences of black families in the United States, we have identified five key aspects of financial inclusion (Exhibit 5). A household with full access to the financial system should be able to make everyday transactions through a safe and affordable transaction account, have access to credit, hold insurance against key risks, be able to save for big goals or rainy days, and ultimately accumulate long-term wealth. While many families take these elements of financial inclusion for granted, black families face more difficulties gaining access to the whole "puzzle."

To size the potential impact of greater inclusion, we calculated the additional annual revenue under two different scenarios that financial institutions would realize if racial disparities in access to financial products and services were mitigated.[8] By providing black customers access to financial products at the same rates as white customers (an equal access, unequal wealth scenario), financial institutions could realize approximately $2 billion in annual incremental revenue. Further, if there was no disparity in the average revenue per household between black and white customers (a total parity scenario), which has been largely driven by differences in wealth and income, the full financial inclusion of black Americans would generate about $60 billion in additional annual revenue in the financial sector (see sidebar, "The potential impact of greater inclusion: Two scenarios").

[7] "Financial Inclusion Overview," World Bank, October 2018, worldbank.org.

[8] In either scenario, our estimates of the impact of financial inclusion account for the potential reduction in revenues that would result from bringing black households in line with white households' usage of certain products. These instances primarily reflect black people's higher use of debt vehicles that are not drivers of wealth, such as auto loans and unsecured cash loans. While student loans can represent an investment in one's own human capital, black Americans' burden of student loan debt typically reflects a greater need to borrow in the first place due to lower familial wealth, and often also reflects loans with less favorable terms and black students' resulting difficulties in paying off their debts; thus, both parity scenarios assume a decrease in black student loan use. Finally, both parity scenarios would reflect a decrease in revenue from black overdraft payments.

Exhibit 5

The below formula reveals the business case for financial inclusion.

Revenue from greater inclusion of black citizens (across the 5 categories of the financial inclusion puzzle)

Potential new black customers × **Average revenue per household**

Number of black households × Percent potential gap closure for financial products

Total financial product revenue ÷ Total number of households using product

Source: Global Banking Pools data

The potential impact of greater inclusion: Two scenarios.

Scenario 1: Equal access, unequal wealth
This scenario assumes the same penetration of financial products across black and white households, but with no change in the average revenue per product realized from black households today. In other words, there would be no disparity in access between black and white families, even if there was a disparity in revenue per product, given that the income and wealth of the average black family today is less than that of white families. Estimating the additional value black households would bring the financial sector in such a scenario requires knowing two key data points for each product in the financial inclusion puzzle.

The first data point is average revenue per black household for each product (in dollars, in 2016, per McKinsey's Global Banking Pools research).

The second data point is the number of potential new black customer households for each product, were we to close the racial gaps in access. This calculation is based on the total number of black households in the United States (about 18 million) multiplied by the difference between the percentage of white and black households that currently have access to a given product. For example, if the percentage of black households with a bank account matched the rate among white households, the analysis estimates that approximately 2.4 million more black households would be banked.

Based on the average revenue per product and the additional black households that would use a product in the access parity scenario, the analysis identifies a total of approximately $2 billion in annual revenue to financial institutions if black customers had access to financial products at the same rates as white customers.

Banks could realize this additional revenue in the short term were they to bring more black customers into the fold—but it is also important to take a longer-term view. That is because financial inclusion would not just mean more black families with bank accounts, home loans, mutual funds, or discretionary pensions in the short term but it also would enable these black families to build wealth year over year and generation over generation. As the capital that black customers contribute to the financial system increases, these black households, the financial institutions that support them, and the economy as a whole would continue to benefit. Hence, we considered an alternative, longer-view method of the potential value of achieving financial inclusion for black families.

Scenario 2: Total parity
In this longer-term scenario, we calculate the additional value black households would generate in the financial sector were there no disparity between the average revenue generated per white household (about $6,200) and the average per black household (currently less than half as much, approximately $3,000).

In this scenario, the same percentage of black households would access each financial product as white households currently do—but we further assume that black households would contribute the same revenue per product as white households, as a proxy for imagining a world where black individuals and white individuals have the same amount of wealth. In such a world, the full financial inclusion of black Americans would generate about $60 billion in additional annual revenue in the financial sector—almost 30 times more than in Scenario 1.

These numbers suggest that the first steps might be small ones to ensure more black households are able to fully access the financial system across the full range of products and services available; moreover, relieving the racial wealth gap could also bring meaningful financial benefits to black families and the financial institutions that serve them.

What exclusion looks like today

Financial exclusion has intergenerational consequences. Decades of financial exclusion created real challenges in black families' ability to sustainability build and grow wealth.[9] Moreover, modern-day financial disparities, such as the approximately 45 percent of black individuals who report experiencing racial discrimination when trying to rent an apartment or buy a home (compared with 5 percent of white Americans) continue to make economic mobility and wealth building more difficult for black Americans.[10]

To bring this reality to life, we want to imagine the experiences of two hypothetical families—Richard and Jennifer Smith, a white couple with a six-year-old daughter who live in Portland, Oregon, and Scott and Carla Morgan, a black couple with a six-year-old daughter who live in Jackson, Mississippi. The Smith family earns $61,200 per year (the median annual income for a white family in the United States) and has accumulated $171,000 in wealth (the median wealth for a white family). The Morgan family earns $35,400 per year (the median income for a black family in the United States) and has accumulated $17,600 in wealth (the median wealth for a black family).[11]

As these families journey across each stage of the financial inclusion puzzle—making everyday transactions through a safe and affordable transaction account, having access to credit, holding insurance against key risks, being able to save for big goals or rainy days, and accumulating long-term wealth—a clear view of how financial exclusion amplifies and reinforces inequality emerges.

Making everyday transactions

Even mundane experiences, such as depositing and accessing monthly paychecks, diverge sharply for the two families. Richard and Jennifer Smith both have traditional checking and savings accounts at banks located in their neighborhood, and their paychecks are deposited directly. Meanwhile, Carla Morgan receives her check by direct deposit, and Scott Morgan receives his check via mail. Given the limited availability of banks in his neighborhood,

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9 Trymaine Lee, "A vast wealth gap, driven by segregation, redlining, evictions and exclusion, separates black and white America," *New York Times Magazine,* August, 14, 2019, nytimes.com.
10 *Discrimination in America: Experiences and views of African Americans,* a joint report by NPR, Robert Wood Johnson Foundation, and Harvard T.H. Chan School of Public Health, October, 2017, npr.org; see also "Discrimination in America: experiences and views on affects of discrimination across major population groups in the United States," Robert Wood Johnson Foundation, October, 2017, rwjf.org.
11 2016 Survey of Consumer Finances, The Federal Reserve, September 2017, federalreserve.gov.

he cashes his check at a storefront service, which charges him a 3 percent fee—high, but at least he knows what the fee is. Every month, the Morgans pay approximately $40 in bank fees and penalties (for using ATMs or for falling under the minimum required balance) on their joint monthly income of $2,600.[12] By contrast, the Smiths, who earn an average monthly income of nearly $4,500, pay nothing to access their paychecks.

The Morgans, like 30 percent of black households, are underbanked.[13] One reason is that basic checking and savings accounts are harder for black consumers to open and more expensive for them to maintain. In majority white counties, there are 41 banks per 100,000 people, compared with just 27 in majority POC neighborhoods.[14] And when black families do gain access, they often pay more than their white counterparts. Banks in black neighborhoods require customers to deposit an average of 60 percent of their paychecks to avoid fees or account closures, compared with just 28 percent in white neighborhoods—a consequence of both higher bank fees and lower incomes.[15] As a result, many black households rely on alternative financial services, such as check-cashing services, payday loans, money orders, and prepaid credit cards, all of which typically charge high fees. Over the course of a financial life, those fees can add up to an estimated $40,000.[16] These obstacles and the distrust they engender make even the simplest transactions a challenge for black families.

Accessing credit

Lack of access to credit has far-reaching consequences for the financial lives of black Americans. Car ownership, for example, is essential in many communities for getting to work and holding a job, but it is more expensive for the financially excluded. In their visit to the showroom, the Smiths were offered a straightforward loan at prevailing rates. Yet when the Morgans went car shopping, with a comparable credit rating, they were offered a higher-cost loan that added several thousand dollars in additional costs over the life of the loan. In fact, POC car shoppers who are more qualified than their white counterparts are 62.5 percent more likely to be offered costlier pricing options—adding up to $2,662 in extra fees and interest over the life of the loan.[17]

Loans are generally harder to obtain and more expensive for black Americans (who are twice as likely to be denied credit compared with white Americans), making it harder for them to weather financial challenges.[18]

Holding insurance

There is also a large disparity in the types of insurance products that are more readily accessible to black and white Americans. For example, 73 percent of white families have private health insurance, compared with just 57 percent of black Americans.[19] Black families are also overrepresented in states that have less expansive Medicaid policies, forcing them to purchase expensive—and often inadequate—individual healthcare policies.

This reality has material ramifications for the Smith family and the Morgan family when both daughters go to the emergency room for a broken arm. The Smiths have health insurance through Jennifer's employer that covers their daughter's medical costs, minus a co-pay of $200—their only out-of-pocket expense. The Morgans don't have employer-provided insurance. Since they just miss

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12 For more on this dynamic, see Lisa J. Servon, "The real reason the poor go without bank accounts," *CityLab,* September 11, 2013, citylab.com.
13 "2017 FDIC national survey of unbanked and underbanked households," FDIC, October 2018, fdic.gov.
14 Parker Cohen, Stephanie Landry, and Santiago Sueiro, *Analyzing the landscape of saving solutions for low-income families: The savings crisis and the need for holistic solutions,* Prosperity Now, April 2019, prosperitynow.org.
15 Jacob Faber and Terri Friedline, *The Racialized Costs of Banking,* New America, June 2018, newamerica.org.
16 Matt Fellowes and Mia Mabanta, *Banking on wealth: America's new retail banking infrastructure and its wealth-building potential,* Brookings Institution, January 2008, brookings.edu.
17 Lisa Rice and Erich Schwartz Jr., *Discrimination when buying a car: How the color of your skin can affect your car-shopping experience,* National Fair Housing Alliance, January 2018, nationalfairhousing.org.
18 2016 Annual Survey of Entrepreneurs, US Census Bureau, census.gov.
19 Edward R. Berchick, Emily Hood, and Jessica C. Barnett, *Health insurance coverage in the United States: 2017,* US Census Bureau, September 2018, census.gov.

the Federal Poverty Level cutoff for Medicaid, they purchased insurance through the private market; there they found a plan with a $4,000 deductible, which they have not yet met. The out-of-pocket bill for their daughter's broken arm comes to $2,500, which is almost equal to their joint monthly income.[20]

Planning for big goals or rainy days

A cushion of readily available liquid assets is an essential part of a healthy financial plan; it's what allows families to pay for college, save for retirement, or weather unexpected financial events. Black families are less likely to have such a cushion—leaving them in a more precarious situation (Exhibit 6). Approximately 70 percent of black families' financial portfolios are in illiquid assets, such as property, compared with 54 percent for white families.[21] While the average white family has 31 days of liquid savings on hand, black families have only five days.[22]

One key financial goal for the Smith and Morgan families is saving for a comfortable retirement. The

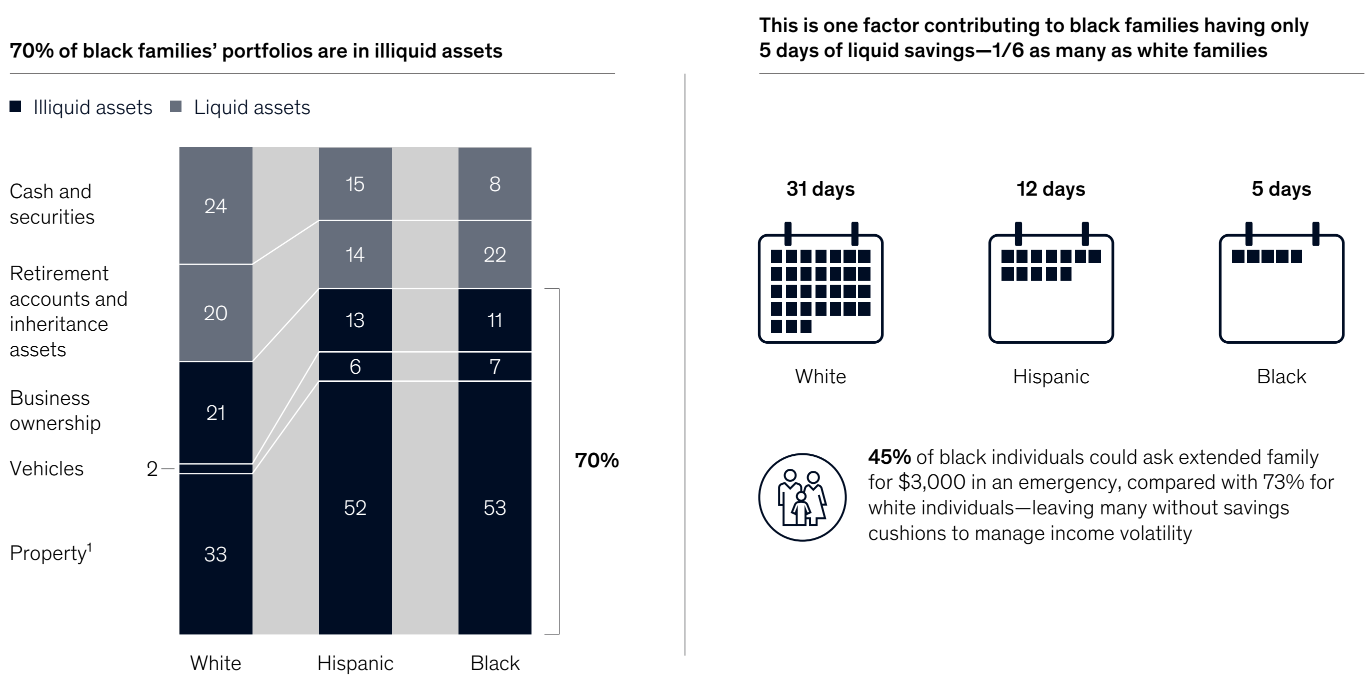
[20] Because health insurance is typically accessed through an employer or through government programs (whether Medicaid, Medicare, or a state exchange plan), we have not accounted for the additional revenue generated from more black Americans having health insurance (private or otherwise) in our analysis in Exhibit 5. However, it is important to include in the narrative about financial inclusion more broadly because health expenses can have significant effects on a household's financial wellness and ability to access other financial products.

[21] 2016 Survey of Consumer Finances, The Federal Reserve, September 2017, federalreserve.gov.

[22] *The role of emergency savings in family financial security: What resources do families have for financial emergencies?,* The Pew Charitable Trusts, November 2015, pewtrusts.org.

Exhibit 6

Expanding the average black family's liquid assets would provide essential protection against unexpected income shocks.



[1] Refers to equity in one's own home and additional real estate.

Source: The Federal Reserve; Urban Institute; *Wall Street Journal*

Smiths can put aside money for retirement each month. Their retirement account holds $77,000, the median for white families who own accounts. The Morgans, meanwhile, have only accumulated $24,600 in their retirement account—the median for black families who own retirement accounts.[23] Despite these disadvantages, the Morgan family is lucky to be among the 34 percent of black families who have a retirement account at all, compared with 60 percent of white families.[24]

Accumulating long-term wealth

Historically, buying a home has been a key step in building family wealth. While homeownership is not the silver bullet solution for all families in all contexts, homes can appreciate over time, significantly add to net worth, and become an important means of wealth transfer for the next generation.

Black Americans, however, face significant barriers to home ownership. They have been denied loans at much higher rates than white Americans—28 percent and 11 percent, respectively—and are offered higher-cost loans compared with white borrowers with similar credit scores.[25] For borrowers with FICO scores above 660, 21 percent of black individuals typically end up with a higher-risk, higher-priced mortgage, compared with 6 percent of white borrowers.[26]

It's important to note that while homeownership could significantly narrow the racial wealth gap, it alone would not close it. Among nonhomeowners, white households have an average of 31 times more wealth than black households, with $3,775 compared with $120, respectively. Homeownership takes that multiple down to 2.4, at $239,300 versus $99,840—but this is still an average wealth disparity of $140,000.[27]

These realities play out in the lived experiences of the Smith and Morgan families. The Smiths bought a $200,000 home, the median value for a white family's primary residence. Given their financial position and credit score of 680, they received a 3.5 percent interest rate on their loan. The Morgans had a different experience: they found a house they loved for $124,000, the median value for a black-owned primary residence. But despite a credit score of 680 (the same as the Smiths') they were given a subprime loan that carried an interest rate of 7 percent—double what the Smiths were paying in interest.

The compounding effects of these different financial experiences will likely have generational implications. Just 8 percent of black families leave inheritances to their children, compared with 26 percent of white families.[28] Richard and Jennifer Smith will likely be able to pass along wealth to their daughter at their death. Scott and Carla Morgan are less likely to do so.

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[23] Median value of retirement accounts for those who have accounts, in 2016 Survey of Consumer Finances, The Federal Reserve, September 2017, federalreserve.org.
[24] Percent of families with retirement accounts, in 2016 Survey of Consumer Finances, The Federal Reserve, September 2017, federalreserve.org.
[25] 2004–08 originations, based on Pew Research Center analysis of Home Mortgage Disclosure Act data; see Kristen Bialik And Drew DeSilver, "Blacks and Hispanics face extra challenges in getting home loans," *Fact Tank,* Pew Research Center, January 10, 2017, pewresearch.org.
[26] Debbie Gruenstein Bocain et al., *Lost ground, 2011: Disparities in mortgage lending and foreclosures,* Center for Responsible Lending, November 2011, responsiblelending.org.
[27] William Darity Jr. et al., *What we get wrong about closing the racial wealth gap,* Samuel DuBois Cook Center on Social Equity and the Insight Center for Community Economic Development, April 2018, insightcced.org.
[28] 2016 dollars; 2016 Survey of Consumer Finances, The Federal Reserve, September 2017, federalreserve.gov.

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What can be done to unlock the full financial inclusion puzzle?

For a plethora of engrained institutional and societal reasons, black families like the Morgans face challenges to financial inclusion at nearly every turn: greater geographic isolation, fewer products tailored to their economic realities, explicit racial discrimination and bias, and more. That said, meaningful changes and actions could be taken across the private, public, and social sectors to tangibly improve financial inclusion for black families.

The role of the private, public, and social sectors

Financial inclusion will not be achieved unless the private, public, and social sectors commit to coordinated efforts. Leaders at banks and other private sector institutions can make an enormous difference simply by rooting out the geographic, process, and economic barriers at their institutions that make it more difficult for black families to gain full access to financial products and services. The public sector, in its role as policy maker, regulator, watchdog, and developer of financial infrastructure, could identify and support initiatives such as student loan reform (black Americans with bachelor's degrees who took out student loans hold nearly $4,400 more debt than the average American college graduate)[29] and innovative systems that support multidimensional credit scoring. In addition, the public sector could monitor and enforce equity in policies related to financial inclusion—for example, ensuring real estate agents do not discriminate against black families who wish to move into neighborhoods that are not comprised of majority black residents. The social sector, meanwhile, can help identify and pilot innovative solutions that, once proven, could be brought to scale.

How cross-sector solutions could address financial inclusion for black families

Given the breadth of challenges that work in tandem to create financial exclusion, there is no magic bullet that will single-handedly lead to financial inclusion. Rather, specific and individual barriers that exclude black Americans from the financial system must be broken down thoughtfully and sustainably. We offer four potential coordinated efforts that the private, public, and social sectors could pursue to further financial inclusion:

[29] Lorelle L. Espinosa et al., *Race and ethnicity in higher education: A status report,* American Council on Education, February 2019, equityinhighered.org.

1. Breaking down geographic and affordability challenges. In financial inclusion, geography matters: bank branches tend to be scarcer and banking services more expensive in communities of color.[30] Banks would be wise to re-examine their geographic footprints—in terms of the location of branches as well as how they engage in the communities where they are present. Local partnerships such as Prudential Financial's investment in Newark and JPMorgan Chase's investment in Detroit,[31] for example, could serve as models. Banking institutions can also adopt existing guidelines and standards for affordable banking, such as allowing opening deposits of less than $25, giving free access to online and mobile services, or limiting overdraft fees. The Federal Deposit Insurance Corporation's Model Safe Accounts or the Cities for Financial Empowerment Fund's Bank On National Account Standards have set such examples.

Social-sector organizations can help by rigorously testing these interventions, advocating for programs that work, and piloting solutions that limit the influence of geography (for example, campaigns to connect black families to community development financial institutions). The public sector can support policies that reward institutions that expand their presence in black communities.

New technologies could also further address geographic and affordability barriers. For example, digital banks such as N26, Aspiration Bank, and Chime increasingly offer customers flexible access to banking and investment services, delivered digitally and with no or low fees. Such services could help meet the needs of black Americans who have mobile or internet access and are currently underserved by traditional institutions. The public sector can support these emerging solutions by creating a regulatory environment that enables responsible deployment of digitally enabled products and services.

2. Increasing diversity in the financial system. Increasing representation in financial services institutions is a critical step in creating the conditions that can lead to products that serve black families, as well as reversing feelings of mistrust among black customers. Currently, black Americans are underrepresented; 82 percent of loan officers are white, and only 9 percent are black. Moreover, black employees make up only 7 percent of director-level roles in financial services institutions, and only 2 percent at the executive level.[32] This lack of representation, combined with historical precedent, may send an implicit message that black Americans are less valuable customers. Indeed, almost one in three unbanked households cite distrust of banks as a reason for not having a bank account.[33] Black perspectives must be at the table when new financial products and services are being created and when decisions about investments in specific communities are being made. Increasing racial diversity in the financial services sector and creating more equitable working environments for black employees could go a long way toward ensuring financial products are accessible for black families.

3. Exploring innovative, inclusionary credit decisioning. Financial institutions could also embrace alternatives to conventional, backward-looking credit scoring that could expand access to credit for black customers. For example, start-ups such as RevolutionCredit combine big data with behavioral economics to predict a loan applicant's creditworthiness going forward. This approach often benefits borrowers of color, who are disproportionately likely to have had predatory first lending experiences that leave them with more challenging credit histories. The Lending Circles Program developed by the Mission Asset Fund offers another example of a successful credit-building innovation, with members lending money

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30 Jacob Faber and Terri Friedline, *The racialized costs of banking,* New America, June 2018, newamerica.org.
31 "Newark: Our best billion dollar commitment," Our Corporate Social Responsibility, Prudential Financial, prudential.com; Invested in Detroit, Corporate Responsibility, JPMorgan Chase, jpmorganchase.com.
32 *Diversity in the finance industry,* US Equal Employment Opportunity Commission, April 2006, eeoc.gov.
33 See Figure ES.4 in *2017 FDIC national survey of unbanked and underbanked households: Executive summary,* FDIC, October 2018, fdic.gov.

to other members of the circle on a rotating basis. Loans are offered with no interest or fees, and repayments are reported to credit bureaus to help participants strengthen their credit histories.

Public-, private-, and social-sector institutions could also take on bolder initiatives to serve black customers by creating consumer labs to study the preferences and needs of black communities, using this fact base to inform product development, marketing, research, and policy.

4. Alleviating financial pressure through supportive employee policies. Finally, organizations across sectors can provide the benefits and services that employees need to make smarter financial decisions and to overcome short-term financial stress. Short-term fluctuations in income and expenses often have severe consequences for American families, particularly for the 50.5 percent of black households that are liquid-asset poor (compared with 28.2 percent of white households).[34] Although myriad programs and products in the market today support saving habits and income smoothing, employers are particularly well positioned to support their employees in this.

One key example is early wage access, or a policy allowing employees to receive their paychecks ahead of the typical two- or four-week cycle for a small fee. Walmart's partnership with Even offers an example of this approach. Employers can further support inclusion by making sure that any financial advice or education offered through the workplace is explicitly paired with thoughtful services, products, and opportunities (such as on-site tax prep clinics and auto-enrollment into programs) to ensure employees fully benefit.[35] Financial stress is a major cause of lost productivity at work—thus greater employee financial security ultimately benefits employers, too.[36]

Financial inclusion for black communities can lead to meaningful benefits for black Americans, the institutions that serve them, and the economy as a whole. The public, private, and social sectors all have roles to play and can work collectively to bring about concrete changes for black families. The status quo perpetuates historical and current-day inequalities that disproportionately affect black families. It is our collective duty to work to make financial inclusion a reality, and in so doing, narrow the persistent wealth gap between black and white America.

[34] Parker Cohen, Stephanie Landry, and Santiago Sueiro, *Analyzing the landscape of saving solutions for low-income families: The savings crisis and the need for holistic solutions,* Prosperity Now, April 2019, prosperitynow.org.
[35] Kathleen Bierschenk and Alicia Atkinson, "Why we need to think about financial security at work," Prosperity Now, August 10, 2015, prosperitynow.org.
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