Session 3: Access to Financial Services: The Promise (and Challenges) of FinTech

Summary of Proceeding by Simon Uppal and Dexter Bradford

Moderator: Joseph M. Vincent

Panelists: Chris Adams, Cindy Fazio, Roberta Hollinshead, Sumit Mallick, Sands McKinley, Jonice Gray Tucker, Tonita Webb

Abstract: For many Americans, the American Dream is a dream deferred. Recently, there has been an explosion in demand for diversity, equity, and inclusion in financial services. This has coincided with an explosion of a different kind: one related to delivering financial services through innovations in technology, otherwise known as FinTech. We have seen a plethora of FinTech applications on our smartphones, ranging from online lending to remote deposit making. While these applications provide potential opportunities to level the playing field for those whose dream has been deferred, there remain challenges.

I. Introduction

Research has shown a disparate impact for basic banking services for persons of color. After witnessing the devastating aftermath of the 2008 financial crisis on minority populations, Jonice Tucker began thinking of ways in which new technologies could help ease the path to prosperity for these vulnerable people. The rate of African American homeownership is the lowest it has ever been on record as measured by recent studies in 2019 and 2020. Furthermore, the Covid-19 global pandemic disproportionately impacted racial minorities. As she witnessed the lack of attention in the financial sector given to minority persons, Ms. Tucker observed the need for fair access to credit and fair lending practices. Residential real estate is often considered a financial nest-egg for low and middle-income families. However, this was evaporated after the Great Financial Crisis, with many of these people never returning to the level of wealth they enjoyed before the recession. Ms. Tucker believes advancements in financial technology have the potential to expand access of credit to these minority persons.

Access to financial services can be expanded in many ways. Innovation can pave the way in marketing, underwriting and pricing, and give people who desperately need access to credit the chance of financial prosperity. Having a desire to serve the community, Tonita Webb wanted to bring humanity to banking. Historically, when banking was created, it was designed to exclude certain members of the community, such as African Americans and members of the BIPOC community. Ms. Webb sought out to talk to community members and have discussions in order to fully understand their needs. Furthermore, these conversations led to discussions about how technology and innovation could be used to further financial prosperity. Technology allows services to be available to vulnerable communities without having them face hurdles in the traditional banking system or negate their family responsibilities. One of the possible areas of innovation is the advancement of artificial intelligence. AI has been a popular method in providing access to credit to a larger population. However, it brings with it the potential problem of further limiting credit access to minorities who struggle to gain access to credit in the first place.

II. The Promises of FinTech

FinTech refers to the use of innovative technologies in financial services. Not only does the implementation of technology in financial services change the structure of the industry, but it also shapes our understanding of the financial system. For example, artificial intelligence and the analytics of big data transform the way people access financial services. Advances in these technologies enable the inclusion of financial services to those who traditionally may not have had access. For example, algorithms in trading and financial advising allow people from all walks of life to easily invest and compound their wealth. Traditionally, this was a privilege only for the wealthy.

In recent years, payday lending has been a service used primarily by low-income individuals and families. In Washington, the statue was amended to protect borrowers but also keep the industry alive so that borrowers had that choice. As more FinTech services, companies, and features come into the market, more competitive products and choices are available to consumers. Traditionally, banking has been dominated by a select few. But with the implementation of technology, the playing field is becoming fairer through increased competition.

III. The Challenges of FinTech

Although FinTech innovations drive competition and create significant benefits, these innovations also create significant risks. The digitization of sensitive financial information increases the potential of cybersecurity breaches. The vulnerability FinTech companies face creates risk and can leave consumers in a disadvantageous position. There is also the question of fairness. For example, big data in FinTech utilizes various factors, such as credit scoring, educational history, and property ownership, potentially producing erroneous or biased results.

Algorithms that use factors such as educational history and property ownership can lead to biased datasets for members of BIPOC communities considering they tend to have lower rates of homeownership and higher-level education. A credit company that classifies consumers based on these factors may use their algorithms to come up with results that do not paint the whole picture. Just because members of these communities have lower rates of education or homeownership, they may pay higher interest rates or be excluded, simply because the algorithm says so. While the Equal Credit Opportunity Acts makes it unlawful for lenders to discriminate based on race, color, religion, national origin, sex, or age, the factors in the algorithms are usually not protected.

IV. How to Broaden the Scope of Financial Services

Financial access inclusion has been a foundational principle for Sumit Mallick, and the company he works for, Chime. Mr. Mallick works to provide financial accessibility to certain groups of Americans that traditionally did not have access to these services. In traditional banking, terms and the overall structure of the system can be daunting. Chime has sought to create digestible terms that are easy to understand, especially for minority persons. Furthermore, an understandable experience and the ability to navigate have long stopped minority persons from accessing traditional financial services, with these people often facing an extraordinary complex experience in banking.

Mr. Mallick believes that implementing an easy-to-understand banking system for minority populations will both increase access to banking and financial well-being. These changes can include easy to use interfaces in web and mobile applications, better access to customer support, and enhanced artificial intelligence mechanisms. Financial peace of mind begins with having access to a bank account that is aligned with an individual's best interests. The elimination of monthly fees and the service of free overdraft products empowers people in BIPOC communities to increase their financial well-being. Furthermore, various offerings such as a high-yield savings accounts gives members the motivation and incentive to participate in banking and saving, an experience they may have not enjoyed before.

Traditional banking has taken advantage of vulnerable populations for far too long. For example, banks charge approximately $10 billion annually in overdraft fees, disproportionally impacting minority populations. Furthermore, individuals with subpar credit scores or no credit are usually prohibited from accessing traditional financial services. Chime has launched a secured charge card with no upfront fees and lets consumers build their credit scores. This gives those with no experience in credit products or those with low credit scores a reintroduction into banking. This second chance allows individuals, especially those in BIPOC communities, to build their credit and work towards things like homeownership. Traditional banking has often profited *from* consumers. However, with the implementation of technology, Chime hopes to profit *with* consumers.

V. Thoughts & Review

The implementation of technology in financial services, otherwise known as FinTech, has transformed the financial services industry. FinTech innovations have transformed a variety of industries within financial services, ranging from traditional banking to investing. While there are multiple benefits in terms of the overall market and improved financial services for consumers, there are also risks within the current FinTech ecosystem. FinTech is still a new concept and there is room for improvement, especially through inclusion for minority persons. If FinTech is to be used as a path to homeownership or access to financial services for people in these communities, the challenges must first be addressed.