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Closing the Fintech Inclusion Gap:

How Fintech Can Build Solutions
to Improve Financial Security

commonwealth |  PLAID

Acknowledgments

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Commonwealth is a national nonprofit building financial security and opportunity for financially vulnerable people through innovation and partnerships. Black, Latinx and female-led households disproportionately experience financial insecurity due in large part to longstanding, systemic racism and gender discrimination. Addressing these issues is critical to Commonwealth's work of making wealth possible for all. For nearly two decades, Commonwealth has designed effective innovations, products, and policies enabling 1 million people to accumulate more than \$4 billion in savings. Commonwealth understands that broad changes require market players to act. That's why we collaborate with consumers, the financial services industry, employers, policymakers, and mission-driven organizations. The solutions we build are grounded in real life, based on our deep understanding of people who are financially vulnerable and how businesses can best serve them. To learn more, visit us at www.buildcommonwealth.org.



[Plaid](https://plaid.com) is a data network that powers the fintech tools millions of people rely on to live a healthier financial life. Plaid works with thousands of fintech companies, including Venmo, SoFi, and Betterment, several of the Fortune 500, and many of the largest banks to make it easy for people to connect their financial accounts to the apps and services they want to use. Plaid's network covers 11,000 financial institutions across the United States, Canada, and Europe.



At MetLife Foundation, we are committed to expanding opportunities for low- and moderate-income people around the world. We partner with nonprofit organizations and social enterprises to create financial health solutions and build stronger communities, while engaging MetLife employee volunteers to help drive impact. MetLife Foundation was established in 1976 to continue MetLife's long tradition of corporate contributions and community involvement. From its founding through the end of 2020, MetLife Foundation provided more than \$900 million in grants and \$87 million in program-related investments to make a positive impact in the communities where MetLife operates. Our financial health work has reached more than 17.2 million low- and moderate-income individuals in 42 countries. To learn more about MetLife Foundation, visit [metlife.org](https://www.metlife.org).

MetLife Foundation's Financial Opportunity Project

Decades of research points to the material, psychological, and social value of wealth. Yet, building financial security is a persistent challenge for lower-income Americans, who continue to become less wealthy, not more. In fact, nearly 40% of people in the United States cannot cover an unexpected \$400 emergency expense, according to the Federal Reserve. MetLife Foundation's Financial Opportunity Project aims to reverse this trend. **The four-year initiative, implemented by Commonwealth with the generous support of MetLife Foundation,** will uncover and highlight new consumer insights and pilot practices to enable wealth creation for millions of low-income individuals and families over time.

Executive Summary

America's financial system has a long history of disparate access and outcomes for marginalized groups. Our current economic crisis resulting from the COVID-19 pandemic has illuminated long-standing racial, gender, and income gaps that profoundly impact Americans' financial security. In 2016, the median white family had [ten times](#) the wealth of the median Black family and [five times the wealth of the median Hispanic family](#). As the pandemic highlighted and exacerbated economic inequality, it also altered the way Americans manage their finances by accelerating digital adoption of financial services.

Since its inception a decade ago, fintech has held the promise of leveraging technology to close the access and outcomes gaps. This report examines digital adoption of financial services through the lens of socioeconomic and demographic differences, identifying trends, gaps, and opportunities among a representative sample of 2,008 Americans surveyed online in July 2020 by The Harris Poll on behalf of Plaid. Plaid conducted this survey to inform the digital finance ecosystem on consumer trends, expectations, and outcomes. Our analysis shows that while utilization of digital financial services is comparable across income and demographic groups, significant gaps remain in the availability and accessibility of products and services that meet the needs and expectations of underserved groups.

From consumer perception to barriers to entry, the implications of digital adoption vary for historically underserved groups. In addition to identifying opportunity gaps, this report examines how historical exclusion impacts the psychology of fintech use. As the digital finance ecosystem works toward an equitable and sustainable future, our aim is to provide guidance to developers of financial products and services who seek to understand and build for audiences that have historically experienced barriers to access.

The upward trends in adoption are expected to continue, so the incentive and imperative exist for financial services providers to build solutions that close the still-remaining gaps in access and outcomes for underserved populations.

Introduction

In July 2020, The Harris Poll conducted an online survey of 2,008 adults in the U.S. on behalf of Plaid; the survey sought to provide insights about the impact of fintech and digital tools on consumers' financial lives, and to establish a benchmark for fintech adoption, perception, and trends to be measured over time. The inaugural report based on that survey, [The Fintech Effect](#), found that fintech and digital financial tools improve consumers' financial well-being, expand access to the financial ecosystem, and enable consumers to engage more deeply with their finances.

The survey also found that fintech and digital tool usage may be more egalitarian across several key demographics, compared with more traditional financial services.

Financial technology (fintech) is an expansive and growing field with no single, agreed-upon definition. **We use fintech and digital tools interchangeably to refer to financial products and solutions that are “digital-first” and designed primarily for mobile or online use**, as opposed to in-branch, in-person, or paper-based financial products and services. In our usage, the term fintech would be inclusive of products like Venmo and Chime, as well as digital and mobile banking apps from large, medium, and small banks and credit unions.

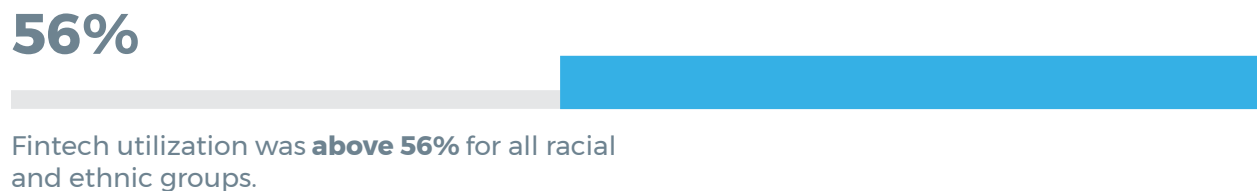
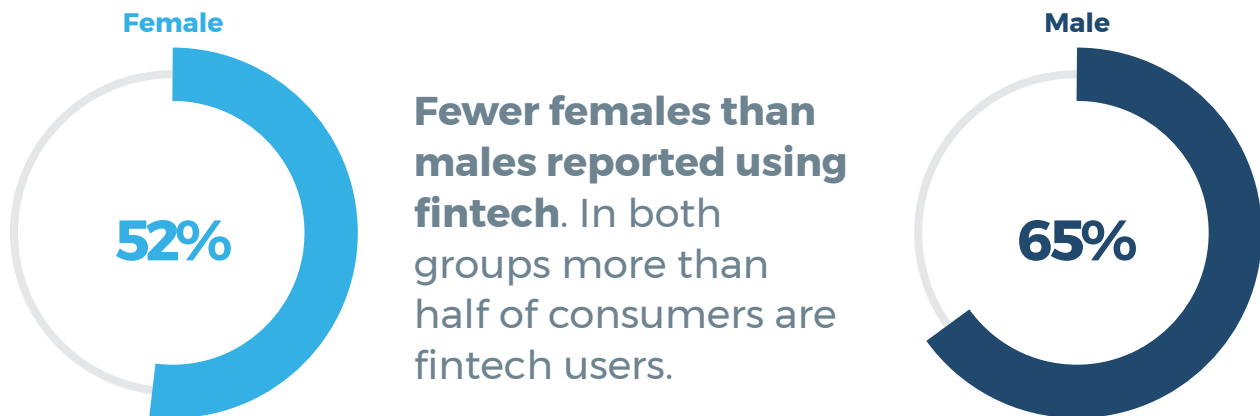
The data reveals key differences in the financial challenges consumers face, how they use fintech to address those challenges, and what trends to expect in the future based on demographics, including age, race, ethnicity, gender, and age, as well as economic factors like income.

Plaid partnered with Commonwealth, a national nonprofit building financial security and opportunity for financially vulnerable people, to explore these differences in greater detail. Below we highlight key insights from this analysis that have important implications for the financial services industry for designing, building, and implementing digital tools to foster greater equity and inclusion in financial services.

These insights are meant to build on the significant efforts already under way in the financial services ecosystem to expand and enhance trends toward more accessible financial solutions for all.

Fintech Serves a Majority of Consumers Across Most Demographic Segments

As reported in The Fintech Effect, fintech use is relatively high and evenly distributed among different genders, ages, and ethnicities—with some minor exceptions:



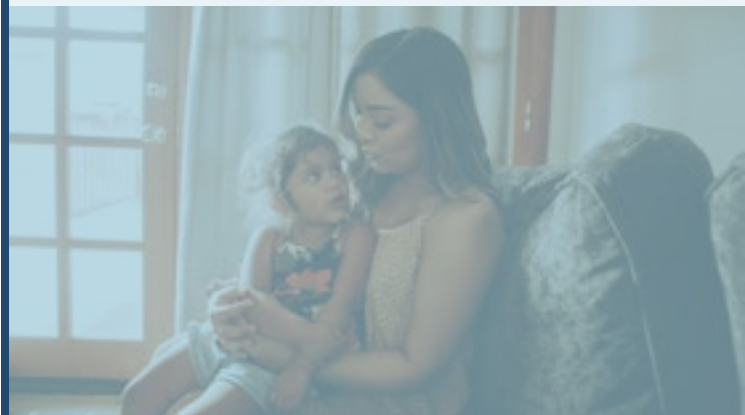
These findings and the rise of [more targeted fintech solutions](#) point to the continued and expanded proliferation of fintech. Therefore, it is incumbent on the fintech and financial services industry to ensure it is serving these diverse groups effectively.

Fintech and Digital Financial Tool Usage Shows Opportunity Gaps

Barriers to participation and access for specific populations center on a lack of services, products, and processes that are designed with specific populations in mind. Other structural barriers include geographic access to banks and credit unions, and race, gender, income, and wealth gaps due in large part to historical discrimination. As a result, different groups have lower rates of participation in the fintech ecosystem. Even as overall use of fintech rises, certain demographic groups reported using fintech less frequently than others or being less likely to use it at all.

- Only 39% of Boomers (ages 56-70) are fintech users
- Lower-income groups reported using fewer fintech tools than higher-income groups. People making less than \$50,000 use the fewest fintech tools to manage finances (2.05 tools on average), compared with other income ranges (2.32 tools or more). They also manage a smaller portion (51%) of finances digitally compared with people making \$50,000-\$100,000 (57%) and those making more than \$100,000 (67%)
- Fewer females reported using fintech (52%) than males (65%)
- When looking at specific uses of fintech, the differences can be stark. People making less than \$50,000 used investment tools far less (15%) than people making over \$100,000 (34%)

Commonwealth's research found that women and single mothers of color with household incomes of less than **\$80,000 per year** felt that current investment platforms were not designed for them.



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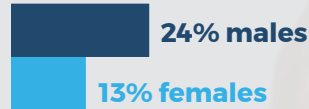
Many possible explanations for these differences warrant further investigation but were not directly addressed by the survey. Importantly, historic and systemic practices of discrimination continue to contribute to [income](#) and [wealth disparities](#) across racial and gender lines. As just one example, [Commonwealth's research](#) found that women and single mothers of color with household incomes of less than \$80,000 per year felt that current investment platforms were not designed for them. These systemic factors are central drivers of the differences in financial access and inclusion, which are likely reflected in the survey findings. In addition, Commonwealth's research on low-to-moderate income households found that four nonfinancial factors—a journey mindset, aspiration- and value-centered motivations, social networks, and inclusive messaging—were relevant to achieving financial security, and may therefore impact respondents' fintech behavior.

Both **males** and **females** reported needing further assistance with the following:

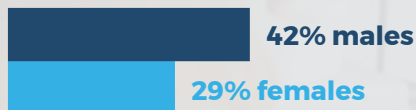
creating an emergency fund



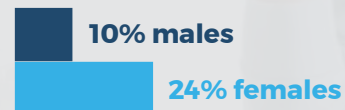
filing taxes



making/sticking to a budget



securing or refinancing a loan



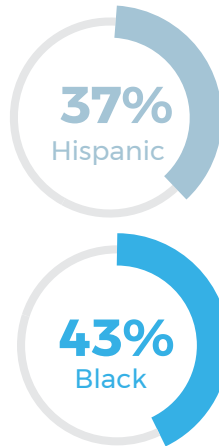
One possible reason the survey data suggests is a need among specific groups for greater initial awareness about the different challenges fintech can address. For example:

- People at or below an annual income of \$50,000 per year reported not knowing where to start when using digital tools to build emergency savings, as compared to higher income bands (40% vs 20%)
- A higher percentage of males vs. females reported not knowing where to start when using digital tools to build an emergency fund (31% vs. 22%), file taxes (24% vs. 13%), or make/stick to a budget (42% vs. 29%)
- A higher percentage of females vs. males reported not knowing where to start when using fintech to secure or refinance a loan (24% vs 10%)

Although this is not a comprehensive explanation of the differences in use of fintech tools, it reveals an opportunity for fintech tools addressing these specific financial challenges to be mindful of race, gender, class, and income as they research, design, and market to potential new users.

Fintech Behavior Reflects Different Financial Priorities

Fintech tools address a variety of financial priorities, from growing savings, to paying off debt, to getting started with investing. The survey data shows that top financial priorities may differ among demographic groups and economic circumstances.



Paying off debt is the top reported financial goal:

- Black** 43%
- Hispanic** 37%
- White** 31%
- Asian** 25%

Financial goals based on income

56% of people making over \$100,000 reported **looking to invest money** compared with **32%** making less than \$50,000.



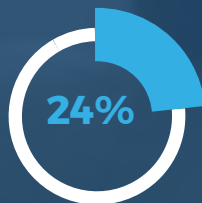
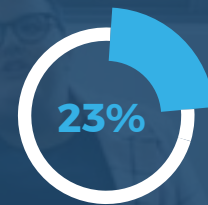
Financial goals based on gender

The top financial goal reported by both males and females is to **save and invest more of their money**. However, **50% of males** reported considering this a top goal and **43% of females** did.



Differences in financial goals may reflect systemic disparities in how certain groups are served by the financial ecosystem; within these disparities exists an opportunity for financial service providers. Fintechs can thoughtfully respond to these differences when designing, developing, and marketing their solutions. We are already seeing the rise of demographic-specific fintechs like [Greenwood](#), [First Boulevard](#), and [Daylight](#), that lean into varying priorities and aspirations and deliver tailored services. To better understand the goals and aspirations of their users and whether they differ across demographic or economic factors, financial service providers with solutions already in market could conduct surveys or research to inform ongoing product design, development, and improvement.

A larger percentage of females (23%) said there were **too many fees associated with paying off student/personal loans** compared with males (6%).



Conversely, a larger percentage of males (24%) **think fees are too high to start a savings habit** compared with females (8%).

Some features of fintech tools, such as fees or associated costs, are a barrier for certain consumers

How do tools, features, costs, and other terms and conditions impact a potential consumer's relationship to a certain financial product? By thoughtfully asking these questions, the fintech community can gain demographic insights to inform business decisions, especially around accessibility. In some cases, there is an intersection between certain features, like fees and the job the fintech is doing, that informs consumers' perception. For example:

- A larger percentage of Black people (47%) said there were too many fees associated with creating a savings habit compared with white (13%), Asian (10%), and Hispanic (13%) people
- Similarly, 50% of Black people said there were too many fees to secure or refinance a loan vs. white (22%), Asian (14%), and Hispanic (8%) people
- A greater percentage of people making less than \$50,000 (37%) said there were too many fees associated with investing tools than those making \$50,000-\$100,000 (14%)
- This difference holds for tools for building an emergency fund (30% vs. 13%) and basic banking services (23% vs. 15%)
- A larger percentage of females (23%) said there were too many fees associated with paying off student/personal loans compared with males (6%)
- Conversely, a larger percentage of males (24%) think fees are too high to start a savings habit compared with females (8%)

[Research](#) demonstrates how racially discriminatory practices in the financial services system leads to higher costs and fees for communities of color. For fintechs and financial service providers looking to equitably serve a diverse set of consumers across these financial priorities or targeting a specific population, awareness of historic and current discriminatory practices is key. They have an opportunity to create a more inclusive financial system by ensuring that fees and costs are transparent, predictable, and enable access to services across groups. As the financial ecosystem examines economic disparities across groups, Commonwealth [research](#) can serve as a resource; Commonwealth has identified demonstrated wealth barriers and gaps in the financial system across race, ethnicity, and gender and engaged advisors from across the fintech ecosystem to provide input on addressing these gaps. Informed by this research and work, Commonwealth is continuing to explore new ways to close the racial and gender wealth gap by researching a new generation of innovative [wealth building tools and pathways](#) suitable for the 21st century, especially for Black, Latinx, and female-led households.



23% of all respondents reported trusting tech-driven companies to build better financial products.

Trust was higher among Black respondents (35%) compared with white (25%), Hispanic (24%), and Asian (19%) people. Further research is needed to gain insight into what trust in fintech means across demographics and how it correlates to other factors.

Psychological Aspects of Financial Product Use Vary Across Groups

Finances are much more than dollars and cents. As Commonwealth's research on [Positive Financial Futures](#) demonstrated, nonfinancial factors are particularly relevant to reaching financial security, including a journey mindset, aspiration- and value-centered motivations, social networks, and inclusive messaging.

Findings from The Harris Poll survey also highlight the importance of nonfinancial factors and differences across demographic groups and income levels, specifically related to feelings of confidence and trust.

- Although 26% of all respondents reported low confidence about their relationship with money/ personal finances, Black respondents reported low confidence at a greater rate (35%) compared with white (25%), Hispanic (24%), and Asian (19%) people. Further research is needed to gain insight into what trust in fintech means across demographics and how it correlates to other factors.
- And although 23% of all respondents reported trusting tech-driven companies to build better financial products, trust was higher among Black respondents (35%) compared with white (21%), Hispanic (24%), and Asian (15%) respondents.
- A greater percentage of females reported low confidence about their relationship with money/ personal finances (30%) compared with males (20%) and a greater percentage of males (27%) reported trusting tech-driven companies compared with females (19%).

- Respondents making less than \$50,000 (39%) reported low confidence about their relationship with money/personal finances compared with those making \$50,000-\$100,000 or more than \$100,000 (27% and 13% respectively)

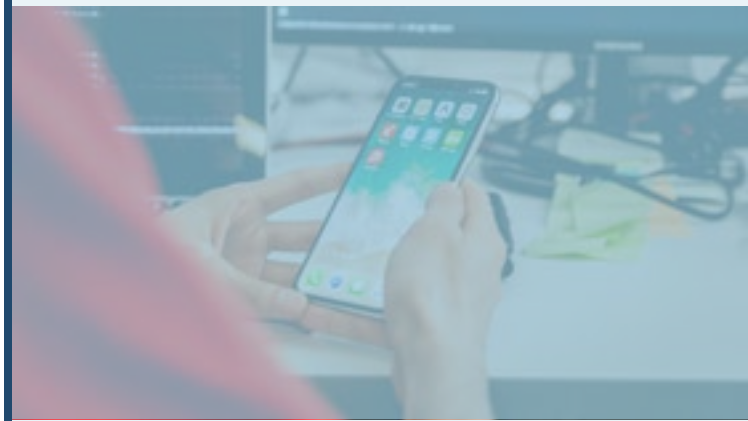
These findings present opportunities for fintech. Certain groups may [trust tech-driven companies more than traditional financial institutions](#) to provide helpful and high-quality solutions, often as a result of negative past experiences with traditional financial institutions. Consumer perception is complex; reaching financial goals often requires confidence, a complex emotion influenced by personal and systemic factors. Trying a new tool for a specific financial need can be fraught, and therefore, it is incumbent on the fintech and financial industry to examine the perception around their products. Fintechs have an opportunity to build trust and confidence through how they design and distribute their solutions. Commonwealth recently [announced an initiative](#) in partnership with JP Morgan Chase to examine the use of emerging technologies, like artificial intelligence (AI) powered chat-bots, among financially vulnerable consumers with a focus on how they garner trust.

COVID-19 Accelerated Widespread Adoption of Fintech

As highlighted in the first installment of The Fintech Effect, 59% of Americans use more apps to manage their money now than before COVID-19, accelerating the trend of people using digital tools for their financial needs. This increase in adoption and use of digital tools presents an opportunity for fintech to expand reach and access for groups historically underserved by the traditional financial services system. For example, Commonwealth [research](#) found that use of chatbots by lower-income people



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has increased by 200% since the pandemic. By understanding demographic and economic differences in post-pandemic adoption, financial service providers can create solutions that will lead to a more equitable and inclusive financial system:

- Overall, Black people plan to use to more fintech tools to manage their money (5.75 tools on average) after the pandemic vs. white (3.93 tools), Hispanic (3.67 tools), and Asian (3.08 tools) people
- People making less than \$50,000 also plan to use several fintech tools to manage their finances after the pandemic (3.69 tools on average)
- Hispanic and Black people reported using fintech more than once a day at a higher rate than white and Asian people before, during, and after the pandemic

As more people turn to digital tools and fintech to manage their financial lives—including people who may have been excluded from more traditional financial services and institutions—it is incumbent on fintech founders, designers, marketers, developers, and anyone committed to fintech as a force for financial inclusion to pay attention to who is being served well by fintech and who is not, and to take intentional steps to address these gaps.

People making **less than \$50,000** plan to use several fintech tools to manage their finances after the pandemic (3.69 tools on average).



Five Next Steps Financial Service Providers Can Take Toward Equity

The goal of this report is to elevate key differences in how specific groups use fintech to contribute to the ongoing conversation regarding how fintech can deliver on its promise and potential to create a more inclusive and equitable financial institution. These findings serve as a starting point for further investigation and action, and an important reminder that, as more people turn to technology to address financial needs, the challenge is for fintech to serve everyone, and especially those historically underserved by mainstream finance.

In summary, the steps that financial service providers can take to respond to the opportunities created by greater adoption of digital tools in a way that is inclusive and equitable, informed by the findings above, include:

- Review the existing literature and research regarding economic disparities across demographics groups to inform your understanding of the challenges and opportunities for the populations you plan to serve and the financial issues you seek to address
- Take a human-centered approach to product design that is inclusive of a diverse population, from defining the job to be done, to initial design, through test, launch, and ongoing product improvement
- Collect the data necessary to analyze impact and use across different economic and demographic groups, and use the findings to inform changes
- Constantly monitor your impact to determine whether you are addressing or exacerbating existing inequalities in the financial system
- Engage experts and other perspectives through nontraditional partnerships to develop a holistic view of the financial challenges you are trying to address

We are committed to continuing this conversation and look forward to collaborating with fintechs and financial service providers who share our vision of a more equitable and inclusive financial system.

If you would like to learn more about Commonwealth's work building financial security and opportunity for financially vulnerable people, contact Brian Gilmore, Director at info@buildcommonwealth.org or visit www.buildcommonwealth.org.

If you would like to learn more about Plaid's efforts to diversify the fintech ecosystem by supporting founders of color, see our [FinRise accelerator](#). To contact Plaid's policy team, email policy@plaid.com.