



The Technology to Advance Equal Financial Opportunity

Community Strategies Lab

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**COMMUNITY
STRATEGIES LAB**

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The Community Strategies Lab is an action research organization. We analyze problems facing vulnerable communities and identify innovative strategies to address these problems.

We find real world solutions where innovation and technology can help unlock existing potential inside a community—potential includes social capital, talent, and resources.

Being financially underserved is a classic example of a problem that robs vulnerable communities of their potential—taking away precious resources of time and money and leaving talent underutilized.

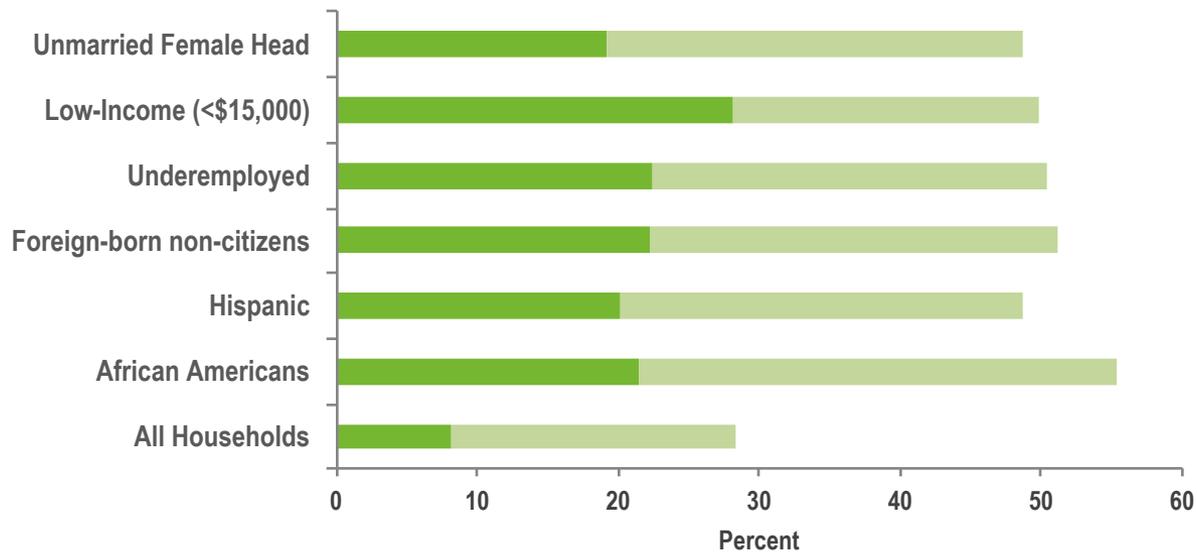
Our study identifies the realities of financially underserved communities and points to real world solutions that are available through modern technology.

Financially underserved

Someone who has used an alternative financial service in the last year—a check casher, a payday lender, a pawn shop, a money order.

Minorities and low-income groups are often financially underserved.

Figure 1: Financially Underserved Rates by Select Demographics



Employment is not a strong predictor of being financially underserved—more than half of households without checking accounts include at least one person with full-time employment.

Costs of predatory lending practices

Source	Predatory practice	Annual cost (billions)	Households affected annually
Equity stripping	Prepayment penalties	\$2.3	850,000
	Financed credit insurance	\$2.1	500,000
	Upfront fees	\$1.8	750,000
Rate-risk disparities	Excess interest	\$2.9	600,000
TOTAL		\$9.1	2,700,000

Lost wealth—just the money, not the time or talent:

- Underserved households spend an average of 9% of their income on interest and fees for alternative financial services—the same percentage average households spend on food.
- That means millions of financially underserved households spend as much to use their money as they do on breakfast, lunch and dinner.

A woman with dark curly hair, wearing a red top, is smiling and holding a gold credit card. The card is partially obscured by the text 'Consumer challenges'. The card has a black magnetic strip at the top and some text and a signature strip below. The background is a warm, golden-brown color.

Consumer challenges

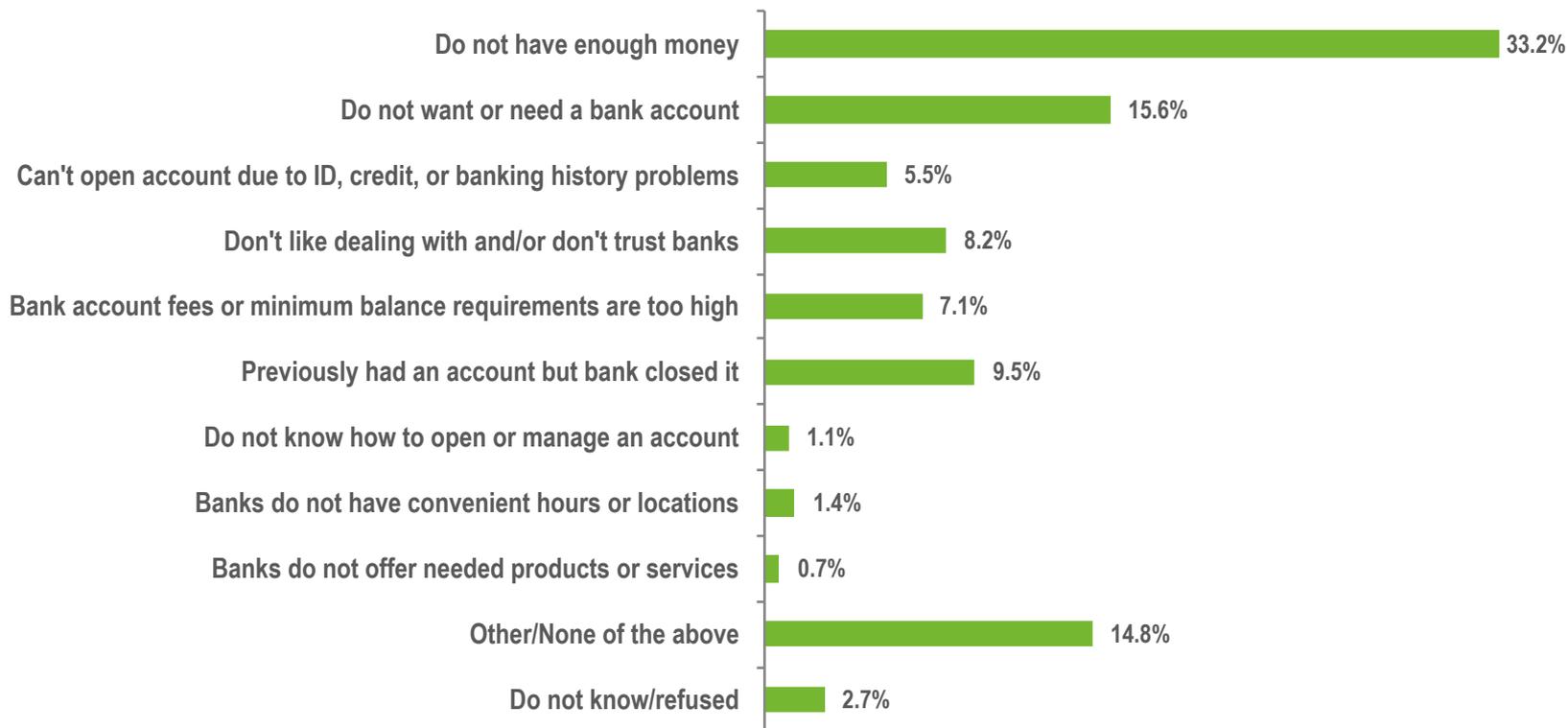
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Many consumers are financially excluded.
Others choose not to use mainstream
services.

Consumers' reasons for not banking

Figure 5: Reasons Previously Banked Households are Unbanked



The appeal of alternative financial services:



convenience



speed of
getting money



easy/familiar



The promise of technology

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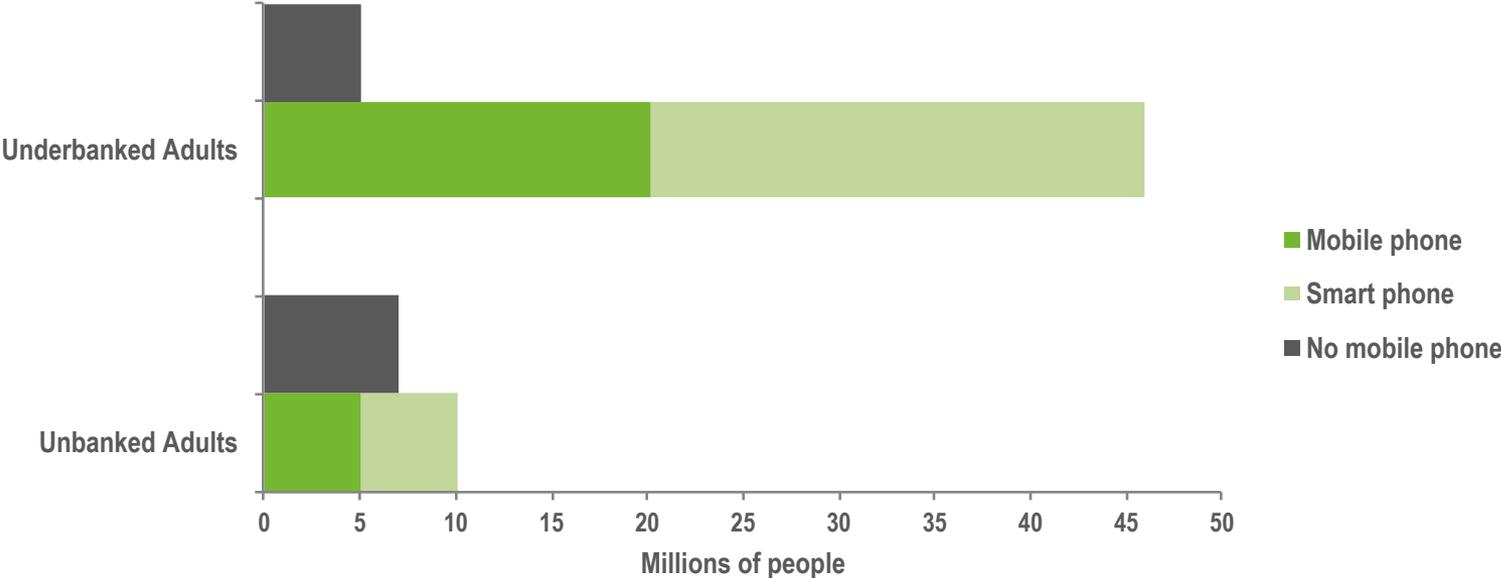
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There are existing technological solutions that can directly help financially underserved groups—the technology can improve convenience, control, security and efficiency while reducing costs.

Electronic payment technology and mobile banking tools have emerged as new ways to reduce the costs of being financially underserved, providing millions of Americans with services that have traditionally only been available through formal banking institutions.

The majority of the financially underserved have digital technology

Chart 6: Estimated Mobile Phone Access among the Unbanked and Underbanked



Traditional banks are working to develop electronic financial products and services for lower-income communities. The technology has lowered their business costs and made it profitable for them—creating more choices for consumers.

Prepaid cards in the form of consumer-purchased debit cards, payroll cards or public benefit cards offer the same convenience, safety, control and buying power as bank debit cards—without the bank.

When applied creatively to address the needs of financially underserved communities, electronic payment technologies can improve financial literacy, reduce reliance on cash and fringe financial institutions, and increase confidence in mainstream financial institutions.

They empower underbanked individuals to fully participate in the modern economy by:

- providing secure access to money;
- opening the door to goods and services—both in the store and online—for making purchases and paying bills;
- providing tools to manage finances; and
- reducing the risks of theft and loss.

Yet, technology alone can't solve the problem. For underserved populations, the promise of technology can feel out of reach. Nonprofits, labor groups and other community leaders can play a crucial role in connecting technology to needs—and providing the education to master a new financial tool.

To ensure the greatest benefit and value, payment technology should be accompanied by:

- educational programs that help consumers make informed choices, improve financial decisions and get the full value of electronic payment technology;
- policy changes that enforce industry standards to guarantee transparency and consumer protections; and
- commercial products that are tailored to the needs of individual consumers and communities.

Thank you