



The Social Exchange: The coexistence of equity and financial services

Impact is subjective

“How will we be viewed in seven generations?” ~ Amber Buker, Founder and CEO, Totem



Five insights you should know

- 1 **The need for mortgage depository institutions (MDIs), community development financial institutions (CDFIs), and their partnership with big banks remains.** Black applicants are declined for loans at 2x the rate of other applicants.¹ Nearly 20% of native community populations don't use checking services at banks or credit unions,² and a global \$300 billion gap in financing exists for woman-owned small businesses.³
- 2 **Technology has changed the game.** Digital-first and banking-as-a -service approaches enable FSIs to provide underserved and underbanked with financial products they may not have in the past. However, many small, community banks struggle with cost of and support of technology, and those same customers may not have the infrastructure needed to benefit.
- 3 **Trust must be earned.** Unbanked households cite trust as the second biggest reason for not banking.⁴ Social, cultural, and ethnic obstacles often contribute to this distrust of government and financial services, and this issue can extend from large institutional FSIs to newer, smaller firms as well.
- 4 **Alternative risk measures should be updated.** There are no standards for social metrics today. Absent standards, there will continue to be subjectivity with respect to impact reporting. Reporting on performance should be consistent across the industry, and regulators are expected to focus on standards to level the playing field.
- 5 **At the end of the day, purpose must be aligned to profit.** While purposeful growth must be the foundation, efforts to address un- and under-served populations should be based in concrete business performance to drive meaningful long-term outcomes.

Five actions to consider

- 1 **Enable financial literacy.** Education is foundational to the issue of financial inclusion. Help customers change their behavior in small ways (micro-nudges), digitally, and at the right moments.
- 2 **Consider foundational digital and technology obstacles.** Internet access, deliverable mailing locations, electricity. FSIs may not be able to solve these problems themselves, but there is power in the connections, relationship, and influence that an FSI offers. Just bringing together the smartest minds can be transformative.
- 3 **Partner with community organizations, leaders, etc.** Relationships are critical but must be built in a scalable manner. Getting to know underserved customers personally can help overcome the issues of bias in algorithms and simultaneously negate the trust gap, notes Nicole Elam, CEO of the National Bankers Association.
- 4 **Explore innovative strategies and expect higher costs early.** The challenge is serving the community in which individuals are unlikely to be flush with cash and able to stay in business. Consider non-traditional strategies and approaches and be prepared for higher early investments for customer education.
- 5 **We all have something to offer. It is everyone's job.** FSIs should focus on the 4 Ps: Policy change (bring your voice to the table), programs (what programs can you offer internally and externally), partnerships (we go further, faster together), and profile raising (how can you raise awareness with respect to the issues?). As Nicole Elam has said, “Get in where you fit in.”

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Notes

¹ “Mortgage denial rate for Black borrowers is twice that of overall population, report finds,” CNBC, Aug. 27, 2022.
² “Native Households Have Highest Unbanked Percentage,” National Indian Council on Aging, May 13, 2021.
³ “Bridging the Gender Gap,” International Finance Corporation, news release, 2022.
⁴ 2021 FDIC National Survey of Unbanked and Underbanked Household, Federal Deposit Insurance Corp., updated Nov. 14, 2022.

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