How Fintech is Addressing the Financial Needs of the Underserved

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Presented by
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Executive Summary

One of the goals of our financial system is to provide high quality, affordable financial services for the broadest possible set of consumers. Over the past decade, financial institutions (FIs) and financial technology companies have transformed the financial landscape through the introduction of new technologies that expand financial offerings for consumers, lower costs, improve financial management, and increase transaction security. These products and services – often referred to as “fintech” – have also expanded, and are continuing to expand, financial opportunities for underserved consumers.

In this White Paper, the Electronic Transaction Association (“ETA”) highlights the many ways in which its members are using technology to address the financial needs of underserved consumers. These efforts, discussed in greater detail below, include:

- **Prepaid Products** – Provide cost-effective, convenient, and innovative payment options for millions of consumers, including those that may not have access to traditional financial accounts.

- **Mobile Banking Services** – Provide financial independence and security for those demographic groups that lack easy access to physical FI branches, such as consumers in rural areas, the elderly, or persons with disabilities.

- **Mobile Payments** – Provide an exciting alternative to cash and checks that allow consumers to pay for goods and services in an efficient, cost-effective, and secure manner.

- **Peer-2-Peer Payments** – Enable consumers to send money to each other via mobile applications.

- **Expanded Internet Access** – Expands affordable access to the internet in underserved communities domestically and abroad by improving infrastructure and reducing costs so that more people can connect to the web-based world.

- **Interactive, Automated Tellers** – Transform traditional FI branches by making them economically sustainable in previously underserved communities.

- **Online Small Business Lending** – Expands access to credit for small businesses seeking capital to grow their businesses.

- **Financial Literacy & Readiness Programs** – Empower consumers to take control of their finances and prepare for the future.
The unprecedented recent advancements in technology highlighted in this White Paper continue to show great benefits for underserved consumers, as well as the broader economy. ETA member companies are creating innovative offerings in financial services, revolutionizing the way commerce is conducted with safe, convenient, and rewarding payment solutions and lending alternatives. As the leading trade association for the payments industry, ETA and its members encourage policymakers to support these efforts through policies that encourage innovation and the use of technology to improve financial inclusion for all consumers.
Understanding the Financial Services Needs of the Underserved

One of the goals of our financial system is to provide high quality, affordable financial services for the broadest possible set of consumers. An inclusive financial system is one that provides consumers and businesses with access to a variety of financial products and services. A key driver of financial inclusion is the development of new technologies that allow the underserved to access FI and fintech company financial products and services. Technology not only creates new products and services, but also broadens the availability of existing ones by making them more accessible and lowering costs.

As addressed in this White Paper, ETA’s members are at the forefront of using technology to broaden financial inclusion for underserved consumers. Fintech is building an inclusive financial system that addresses the needs of “underserved” consumers by providing increased access to ATMs for persons with disabilities, helping the elderly or rural population deposit checks remotely, assisting parents in sending funds instantly to their children in college, or helping small businesses get loans. Products and services like prepaid cards, mobile banking, peer-2-peer payments, electronic payment systems, expanded access to the internet, and alternative lending sources for small businesses address the needs of underserved consumers by providing the following benefits:

- Access – Allowing consumers to access funds and financial services wherever and whenever needed.
- Affordability – Ensuring consumers have the ability to select from various affordable products and services. Technology is increasing competition and driving down the cost of goods and services, which makes products more affordable, and thus accessible to more consumers.
- Convenience – Providing consumers with multiple payment options that save time and money.
- Security – Protecting consumer funds from physical and electronic fraud or theft.
- Control and Financial Management – Helping consumers gain better control over their finances through financial literacy and various financial management tools.

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1 The Electronic Transactions Association is the leading trade association for the payments industry, representing over 500 companies worldwide who offer electronic transaction processing products and services. ETA’s membership spans the breadth of the payments industry to include independent sales organizations (ISOs), payments networks, FIs, transaction processors, mobile payments products and services, payments technologies, and equipment suppliers. ETA also has members that are engaged in online lending for commercial enterprises, primarily small businesses, either directly or in partnership with other lenders.
The following section outlines in greater detail the many ways in which ETA member companies are using technology to address the financial needs of underserved consumers and small businesses.

**Deploying Technology to Benefit the Underserved**

Major advancements in technology in the last decade, particularly the explosion of high-speed, wireless internet, have allowed FIs and technology companies to expand new products and services to more consumers than ever before – and they are able to do so efficiently, securely, and at a low cost. This section discusses a number of products and services that ETA member companies are deploying to benefit the underserved.

**Prepaid Products** –

Many ETA members offer prepaid products, which provide cost-effective, convenient, and innovative payment options for millions of consumers, particularly for the approximately 68 million consumers with limited or no access to other financial services.

There are two main categories of prepaid products: 1) closed-loop, and 2) open-loop.

- Closed-loop products are limited to purchases from a single company or at a designated location, such as a gift card to a specific retail store that can be purchased in-store or from a kiosk at another retail location.
- Open-loop products are those that can be used at virtually any retail location or business. Examples include a general reloadable gift card or a general purpose reloadable card that is network branded and can be used to make purchases and obtain cash from ATM machines.

According to the Federal Deposit Insurance Corporation (FDIC), more than a quarter of households (28 percent), either do not have an account through an FI or use alternative financial sources in addition to their bank accounts.² In particular, open-loop prepaid cards are popular with many types of consumers seeking to manage or protect their finances, including college students, low-income individuals who may not have access to a traditional checking account, and consumers traveling internationally. In fact, the federal government utilizes open-loop prepaid cards as an alternative to paper checks for benefit programs. A recent partnership between MasterCard, the U.S. Treasury and Comerica Bank, provides several million Americans with a safe and reliable way to receive federal benefit payments electronically on a MasterCard prepaid

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card. Many of the consumers who use this product do not use mainstream financial services. One of the goals of this product is to increase the use of the card as a payment tool, rather than simply a way to access cash, so that consumers have a more secure way to manage money.

Prepaid cards have shown demonstrable benefits for the underserved, particularly those who use open-loop products. Providing America’s underserved consumers with access to prepaid cards makes their money safer and also helps move them into the increasingly important world of online transactions. For example, Netspend prepaid debit cards offer direct deposit and online bill-pay, features that used to be reserved for customers of FIs. Now, debit cardholders can open savings accounts and budget their money in ways that open the door to financial security and stability.

Netspend cardholders also have access to optional overdraft protection with built-in safeguards that prevent abuse and help consumers meet their emergency needs. This optional, opt-in feature, provides a great service to Netspend customers by helping consumers bridge their financial gaps and achieve stability when they experience an unexpected expense.

Mobile Banking Services–

The internet has allowed for the creation, deployment, and adoption of mobile banking services among many different demographic groups. These services have given the underserved more financial independence and security.

The most recent study conducted by the Federal Reserve found that eighty-seven percent of the U.S. adult population has a mobile phone, and that seventy-seven percent of mobile phones are smartphones, a steady increase from previous years. Twenty-two percent of consumers in the study were underbanked, meaning they had an account through an FI and had used one or more alternative financial services (typically from a fintech company) within the past year. Seventy percent of the underbanked were smartphone owners, and 17 percent owned a feature phone. Among the underbanked with mobile phones, 55 percent used mobile banking.

One example of a demographic that has benefited immensely from the emergence of mobile banking is persons with disabilities. For example, touch screen-only accessibility features on

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4 https://www.netspend.com/about_netspend/.


phones and other devices allow a visually-impaired individual to single tap on any portion of the screen to hear an audible description of the button they are touching, and then to double tap to activate that button.

The latest generation of accessibility solutions are designed to work across multiple platforms so that persons with disabilities have access to a single accessibility system when accessing financial services through an ATM, tablet, or smartphone. The ability to learn one accessibility system and use it across multiple devices is an important advancement that helps people with sight, hearing, or other disabilities from having to learn multiple formats. As a result of these features, people with disabilities are now able to use the same simple and effective system whether they are performing a remote digital check deposit with their phone, transferring money on a tablet, or withdrawing cash at an ATM. This broader range of devices with highly effective accessibility features is making a range of financial services more available to people with disabilities.

**Mobile Payments** –

Mobile payments are an exciting alternative to cash and checks that allow consumers to pay for goods and services in a convenient, cost-effective, and secure manner. The adoption rate of mobile payments is on the rise. Twenty-four percent of all mobile phone users, and twenty-eight percent of smart-phone users have reported making a mobile payment in recent months. Of those who use mobile payments, sixty-five percent pay bills with this new technology. ETA is encouraged by this trend and sees value for consumers in the access, ease, ubiquity, and security of mobile payments.

**Peer-2-Peer Payments** –

Peer-2-Peer payments (P2P) technology, which enables users to send money to each other in minutes via mobile applications, is transforming the way millennials engage in financial transactions. In most cases, the transfer of payment is free for the user, and comes directly out of his or her bank account or credit card (which they have linked to the mobile application). P2P, first popularized by PayPal, has since been offered by Google, Venmo, and others.

The primary use for P2P among millennials is to easily split the cost of goods or services rather than relying on cash or check for reimbursement. A 2014 Nielsen report found that 18-to-34 year olds account for more than 50 percent of those who use mobile payment applications. Paypal’s P2P app, Venmo, has already carved out a niche among younger consumers in the U.S., processing $2.1 billion in just the third quarter of 2015. Venmo integrates a user’s Facebook account with their bank accounts, allowing them to make payments to other friends in their Facebook social network.

\textit{Expanded Internet Access} –

In the last decade, financial services have expanded into our growing internet-based economy. Access to the internet, often through multiple devices, has become common for many American families and is used for both recreation and work. In many instances, low-income and rural populations access the internet primarily or solely through their smartphones. And, as previously discussed, there has been a rise in mobile banking among these demographics. ETA member companies are working to expand affordable access to the internet in underserved communities both domestically and abroad by improving infrastructure and reducing costs so that more people can connect to the web-based world.

T-Mobile, for example, a company that serves a high number of “smartphone dependent” customers (meaning those who own a smartphone but lack home broadband),\footnote{Aaron Smith, \textit{U.S. Smartphone Use in 2015}, \textit{PEWRESEARCHCENTER}, (April 1, 2015), http://www.pewinternet.org/2015/04/01/us-smartphone-use-in-2015/} has worked to eliminate overage charges from customer monthly bills and expanded access to data through innovative services like Binge On. This initiative is part of a company effort to expand broadband access to underserved communities, where mobile devices are often used as the primary means of access to the internet (often resulting in higher-than-expected monthly wireless bills).\footnote{https://ecfsapi.fcc.gov/file/60001841080.pdf} T-Mobile also offers a service called Smartphone Equality that provides low income and credit-challenged consumers with access to the best wireless and device deals as a reward for keeping up with regular payments, helping to build financial responsibility and good credit.\footnote{https://newsroom.t-mobile.com/news-and-blogs/smartphone-equality.htm}

Likewise, T-Mobile has demonstrated its commitment to providing a broad range of accessible products and complementary service plans that support hearing and vision-impaired consumers and other customers with specialized communications needs, including data-only plans and handsets with unique accessibility features. T-Mobile also extends several of the benefits associated with its standard plans (no contracts, Smartphone Equality, and others) to customers utilizing these specialized plans and devices.

Microsoft is also committed to expanding affordable access to the internet on a global scale. Its Affordable Access Initiative aims to provide access to the internet worldwide by partnering and

\footnote{9 https://ecfsapi.fcc.gov/file/60001841080.pdf}
\footnote{10 https://newsroom.t-mobile.com/news-and-blogs/smartphone-equality.htm}
investing at the local level. Under this Initiative, Microsoft partners with internet access providers and other public and private sector entities on innovative and practical connectivity and services solutions designed to deliver the internet to the greatest number of people possible, with the hope of improving communities.

Other ETA member companies, like Google, are working to provide affordable global internet access via satellite, reaching formerly untouched areas of the world. Additionally, Intel Corporation has an initiative to improve and promote access to the internet for women and girls around the world, recognizing their current underrepresentation and important impact in a digital economy.

In a global economy, access to the internet is a critical driver of economic growth. With more people connected to the web-based world, the affordability, ease-of-use, and security of electronic transactions helps power the economy. Likewise, the benefits of expanded affordable internet access are prevalent in underserved communities within the United States. Moving consumers out of a cash-based world and into a more secure financial system are one of the many benefits that expanded access to the internet provides.

Interactive, Automated Tellers –

In 2013, the number of federally insured FIs fell to 6,891 - the lowest number of retail FIs in the U.S. since 1934. The financial services industry is continuously looking for innovative ways for consumers to access financial services. In addition to mobile banking services, FIs are deploying a new generation of technology to transform traditional branches and make them more economically sustainable in previously underserved communities. By harnessing these new technologies, FIs are establishing a new model where branches have smaller physical footprints, but offer a wider range of services at more convenient times.

For example, NCR has deployed a new technology referred to as the interactive teller. By incorporating video and networking capabilities into an advanced automated teller machine, the interactive teller transforms a traditional ATM with a limited range of services into a full-service

facilities. Customers are able to speak live to a teller on the video screen 24 hours a day and receive face-to-face assistance with virtually any service the FI offers. Incorporating interactive teller technology allows an FI branch to operate with a significantly smaller physical footprint. A branch’s 2,500 square foot area can be reduced to as little as 500 square feet, yielding substantial cost savings. In addition, the services offered can be expanded at little or no cost. An interactive teller enables 24-hours-a-day availability of assisted banking, often times in multiple languages.

Technologies like interactive tellers allow FIs to operate branches with more services and at lower costs, reaching more communities than was previously possible. The 24-hour interactive service makes banking accessible to consumers who may have found it difficult to access these services in a more traditional manner. Those that benefit from these innovative products and services include low-income consumers who work non-typical hours, those living in rural communities, and persons with disabilities.

**Online Small Business Lending**

Small businesses are the backbone of the American economy, creating more than 60 percent of net new jobs and employing approximately half of the workforce in the private sector. Unfortunately, many small businesses are unable to access traditional credit for purposes of growing their businesses due, in part, to high search, transaction, and underwriting costs. Fortunately for small businesses, ETA’s members and other new and innovative technology companies are expanding access to credit and offering attractive alternatives to traditional loans.

Online small business lenders are willing to provide small businesses with smaller loans (typically less than $250,000) and shorter terms that are well suited for their day-to-day operating needs or short-term use cases. Using sophisticated, data-driven algorithms to assess the creditworthiness of potential borrowers, lenders are able to reach funding decisions quickly and

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18 In 2014, almost 20 percent of small business applicants sought credit from an online lender. *Id.*

19 *Id.*
efficiently and provide access to capital to approved borrowers expeditiously,\textsuperscript{20} in some cases within 24 hours.

These data-based processes are creating new opportunities for borrowers and lenders. The platforms are agile, nimble, scalable, and can work in tandem with related financial service offerings. For example, online small business lending programs can be synced with payment platforms to assist in underwriting decisions in nearly real-time, and also provide convenient repayment options for small businesses. Fintech platforms have also been used by Community Development Financial Institutions (“CDFIs”) and other non-profit community lenders and development organizations to help increase efficiency in the lending process and identify creditworthy small businesses.\textsuperscript{21}

OnDeck, for example, announced in September 2015 an expansion of its partnership with the Association for Enterprise Opportunity (AEO). OnDeck is licensing its technology platform to AEO’s community lending partners who participate in a program called TILT Forward that improves access to capital for small businesses owners in underserved communities. The expected impact will be an increase in the number of CDFI’s participating in the program, and a facilitation of up to $10 million in loans to small businesses across the country.\textsuperscript{22}

In addition to partnerships with CDFI’s, online small business lenders are partnering with FIs to provide small business loans. Because online platforms and systems are often more efficient and cost-effective for underwriting smaller commercial loans, companies like OnDeck are able to provide a valuable service to FIs in order to expand their market reach. For example, JPMorgan Chase uses the OnDeck digital platform to serve its small business customers. The loans are Chase-branded, held on the FI’s balance sheet, and made using JPMorgan’s underwriting criteria.\textsuperscript{23} What was once a process that could take up to one month for approval now is digital and takes on average just one day. This reduction in processing time is a valuable benefit for Chase customers who need efficient access to capital to grow their small businesses.

\textsuperscript{20} State of Small Business Lending at 6-7; Scott Shane, Why Small Businesses Are Turning To Online Lenders (April 15, 2015), available at http://www.entrepreneur.com/article/245075.

\textsuperscript{21} See the AEO’s Tilt Forward initiative as an example, http://www.tiltforward.com/our-partners/.


In late 2013, PayPal, Inc. launched a unique online small business lending platform called PayPal Working Capital (PPWC), which enables small businesses to apply for and obtain short-term credit. PayPal works with its existing small business customers to offer small-dollar short term loans that are repaid as a percentage of the companies’ monthly sales. In October 2015, PayPal announced that the product had reached $1 billion in funding to entrepreneurs in the U.S., United Kingdom, and European Union. In particular, young and minority-owned businesses with low and moderate income benefit from online business loans made through PPWC. Nearly 35 percent of PPWC loans go to low and moderate-income businesses, compared to 21 percent of FI loans. An analysis found that PPWC is not only providing access to capital in underserved communities, but is showing increased growth of small businesses in these communities. In areas where communities faced a substantial number of FI branch closures, PPWC sales soared at 22.4 percent from one year to the next.

Data from the FDIC indicates that approximately 21 percent of the FI loans under $100,000 are taken out by low and moderate-income businesses in the United States, compared to 33.7 percent of PPWC loans of the comparable amount. It’s clear that online small business lending is reaching a broad market, and that providing quicker access to capital allows small businesses to invest in their employees, purchase more inventory, expand their services, and ultimately grow their businesses.

Kabbage, another online small business lending company that provides short-term, small dollar loans to its customers, recently developed a new product called the Kabbage Card. The Kabbage Card allows qualified Kabbage customers to make purchases online or at brick-and-mortar retailers at the point of sale without having to transfer their loan funds into their PayPal or checking account, much like a business credit card. This product has shown to be particularly useful for small businesses purchasing inventory or products in-person by reducing friction in the funds transfer process.

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Financial literacy empowers consumers to take control of their finances and prepare for the future. There are a number of product and service offerings made by ETA companies to help expand financial literacy to consumers.

In 2013, Discover was the first major credit card issuer to provide FICO® Credit Scores for free to cardholders on-line and on monthly statements. Other card issuers have followed suit by offering some form of a credit score to their cardmembers. In May of this year, Discover announced it would offer FICO® Scores for free through its Credit Scorecard program for all consumers, even those that are not Discover cardholders, to help educate them about credit, the various factors that go into creating their credit score, and how their credit score is used. The ability to access personal credit scores for free allows more consumers to be aware of their financial standing. Particularly for underserved consumers like college-aged students, or those with little to no credit history, this valuable tool provides a foundation for building financial health.

Also this year, Discover launched its Discover it® Secured Credit Card for consumers looking to build or rebuild their credit. The card requires applicants to provide a security deposit, which Discover holds as collateral for a credit line that is equal to the deposit amount (minimum of $200; maximum of $2,500 based on creditworthiness). After one year as a cardmember, Discover will begin to review Discover it® Secured Credit Card accounts each month to see if cardmembers can transition to an account that does not require a security deposit. A unique feature of the Discover it® Secured Credit Card, is that it reports to all three major credit bureaus, enabling cardmembers to build a personal credit history with use of the card.

**ETA Message to Policymakers**

The unprecedented recent advancements in technology highlighted in this White Paper continue to show great benefits for underserved consumers, as well as the broader economy. ETA member companies are creating innovative offerings in financial services, revolutionizing the way commerce is conducted with safe, convenient, and rewarding payment solutions and lending alternatives that are available to a broader set of consumers.

ETA advocates that policymakers remain thoughtful and forward-thinking in how to best support industry’s on-going efforts to provide opportunities for all consumers and small businesses to access and benefit from innovative financial products and services. Efforts by policymakers to regulate financial products and services should be done collaboratively and with careful consideration. We encourage the government to be sensitive to the risk that applying a uniform

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regulatory framework to all products and services, without any appreciation of differences in products and services and consumer needs, will likely stifle creativity and innovation in the market. Such an outcome would harm consumers, particularly at a time when new technologies, products, and services are providing the underserved with unprecedented access to FI and fintech company financial products and services.

Conclusion

ETA and its members support an inclusive financial system that provides high quality, secure, and affordable financial services for the broadest possible set of consumers. ETA member companies touch, enrich, and improve the lives of underserved consumers while making the global flow of commerce possible. A goal of ETA member companies is to continually enhance the electronic payments and financial ecosystem so that it is accessible for all consumers, while ensuring their transactions can be completed securely, efficiently, and ubiquitously. A key driver to achieving such a system is the development of new technologies that allow the underserved to access FI and fintech company financial products and services. ETA encourages policymakers to support these goals through policies that support innovation and the use of technology in financial products and services.

To learn more about ETA, visit our website: www.electran.org