Visa
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Fostering Digital Equity
and Inclusion

Towards digital equity: Empowering Black and Brown-owned banks*

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Insights

- Ensuring that Black and Brown communities have access to credit is essential for both consumers and small business owners, and it is important to use a holistic approach rather than relying on traditional credit rating scales to determine credit worthiness.
- MDIs need appropriate tools and support to continue to provide unique financial products and services to their customers who have traditionally been underserved.
- Scaling financial products offered by MDIs will help to serve an even greater number of people in underrepresented communities.

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> Between 1945 and 1960, consumer credit simply exploded, going from $2.6 billion to $45 billion. A decade later, it stood at $105 billion. It was as if the entire middle class was betting that tomorrow would be better than today.
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> - Joe Nocera, "The Day the Credit Card Was Born," *The Washington Post* (1994)

> There were two groups that did not rely on consumer credit in postwar America: the very wealthy and the poor black population—the wealthy because they did not need it, and blacks who desperately did need it but were excluded from the credit card market.
>
> - Mehrsa Baradaran, *The Color of Money: Black Banks and the Racial Wealth Gap* (2017)

The gap in access to financial services for Black and Brown consumers is a well-documented reality that requires coordinated efforts among public policy and private initiatives. See, for example, CFPB 2020, FDIC 2019, Hernandez Kent et al, 2019, Hofheimer et al 2019 and McIntosh et al, 2020. While the social and moral costs of this inequity are evident, these barriers also impose substantial economic costs on individuals, families, communities, and society as a whole. For individuals and households, the cost is extraordinary: A recent McKinsey study shows that increasing access to basic banking services could save individual Black Americans up to $40,000 over their lifetime (Florant, 2020). Socially, the cost of this gap is even more staggering: closing the racial wealth gap could add $1 to $1.5 trillion to US GDP by 2028 (Noel, 2019).

At the same time, new technological and financial innovations are providing new pathways to wealth-building and economic empowerment. A new generation of fintech entrepreneurs is poised to make the digital transformation of commerce a flywheel for equity and inclusion. Minority Depository Institutions (MDIs), Community Development Finance Institutions (CDFIs), fintech companies, and software developers with firsthand experience of racial and social inequity are proving that overcoming barriers can be a viable business model. The key to accelerating financial inclusion and building a more equitable digital economy is to enable these inclusive financial services companies to scale. One of the fastest ways to scale-up is to partner with a global network.

The three critical challenges for scaling financial products

For decades, MDIs and other community banks have played a crucial role in their communities. What distinguishes MDIs is their community presence and deep understanding of their customers, based on knowledge of the unique challenges and opportunities that their communities face. MDIs can tailor the availability of products and services to meet the various needs of their Black and Brown customers. The diversity of these needs is key to understanding the nature of the problems that confront these communities: one size does not fit all when tailoring financial services for Black and Brown communities, a reality that MDIs understand well.

Successful providers of financial products and services, including MDIs, usually must navigate three basic challenges effectively. First, firms must understand market conditions to ensure that the products and services they offer fit those conditions. Being able to assess the right conditions for a particular product to scale is essential for providing the right value for the individual communities in which they operate. However, the conditions under which MDIs undertake such efforts can be challenging. With generally fewer resources, and customers who often hail from communities that have been underserved, and often ignored, the effort at times required for getting the information needed for effective product design diverges significantly from contexts often associated with large retail banks servicing high income clients. Ultimately, those efforts can and do effect meaningful change for minority households as well as the institutions that serve those needs in support of those institutions' bottom line (Hofheimer et al, 2018).

Second, these products and services must also comply with regulations, which may change as market and technology conditions evolve. Even when regulations are designed to protect the most vulnerable, they can create compliance costs that weigh more heavily on financial institutions with more meager resources. Designing mission-oriented products, or products with features designed to meet the needs and priorities of minority citizens, while ensuring their compliance with rules that do not always take into consideration mission-oriented work, can be difficult. Additional resources may be needed to assess, and then design products for regulatory environments that often change. Despite their unique strengths, their size makes them more susceptible to challenges associated with increased supervision and operational costs, and heightened regulatory compliance costs.

Finally, a successful product must be safe to use, consistently available, and secure. Resilience and security are the foundations on which other experiences are built: this is no place for shortcuts.

Enabling Innovation at Scale: Programmatic Planning and the Technology Stack

Visa takes a multi-pronged approach to enabling innovation in general, and the success of MDIs in particular; additionally, various tools in our stack could be deployed in ways to assist MDIs to scale.

MDIs face longstanding problems in a world where new solutions are becoming possible through the leveraging of new technologies. Against this backdrop, some leading companies have established sandboxes and innovation hubs and developed resources for fintechs that could well support innovation by MDIs and should be considered by leadership looking to endogenously expand their capabilities. In our case, the Visa Fintech Fast Track program has since 2018 focused on developing and then launching innovative solutions and scalability. From supporting the simplification of cross-border remittances for consumers, to helping create innovative payment solutions for on-demand delivery service to facilitating financial services to underbanked customers across the world, Visa's partnerships aim to bridge existing gaps and to encourage new modes of commerce and new ways to pay for new customers. In the context of MDIs, support systems like the Fast Track program are ideal for MDIs seeking to do everything from enabling better options for immigrant customers seeking to send money abroad to establishing KYC/AML onboarding tools designed to service Black and Brown communities (Visa Fintech Fast Trade Program).

Another strategy worth considering for financial technology companies is evaluating their own products and exploring how they might be deployed in innovative ways so as to assist MDIs (and other financial institutions servicing minority communities). One important gap that exists today in financial services is the disproportionate "credit invisibility" among Black and Brown consumers. Research by the Consumer Financial Protection Bureau shows that roughly 45 million consumers are denied access to credit because they do not have scoreable credit records (CFPB, 2015). This issue affects Black and Brown Americans disproportionately.

Access to credit is key to economic health and survival for individuals and businesses, particularly micro and small businesses. As a 2020 Business Roundtable report points out, the ability to pay expenses, save for the future, weather unexpected shocks, and grow wealth is essential to being able to access economic opportunity. This is true for individuals, for families across generations, and for Black and Brown communities at large.

Adopting new methods for determining creditworthiness is also key to increasing small business lending, particularly given that the number of new small and micro businesses has risen significantly during the pandemic. Many of these new businesses are sole proprietor businesses, which may face difficulties obtaining traditional credit once small business assistance and stimulus funds taper off. New technologies allow these businesses' creditworthiness to be assessed in a more holistic manner and based on a record of behavior.

At Visa, we have worked with fintechs and financial institutions to address this need by enhancing an existing product — the secured credit card — and innovating to develop solutions that can be implemented quickly and in a targeted manner.

Secured credit cards provide new-to-credit cardholders access to credit, with a security deposit acting as a collateral on the account. This enables issuers to offer a credit card to someone who otherwise has underdeveloped or poor credit history. Over time, a secured card could provide a path towards graduation that enables secured credit accountholders to access unsecured credit products and financial services from their card issuer. In addition, the use of the secured card is reported to the credit bureaus, helping the consumer to build a credit score that may qualify them for additional financial products at other providers.

For example, the country's first all-digital nationally-chartered bank, Varo, launched the Varo Believe Program to help the 45 million "credit invisibles" qualify for a credit card or loan. The program includes a Visa card and credit monitoring. No upfront minimum security deposit is required and cardholders determine their security deposit amount. There are no monthly or annual fees. Varo reports the cardholder's payment history to the three major credit bureaus.

New secured credit cards, when developed as an effort to fulfil a social need, can become an effective tool of financial innovation. These facilities can be paired with financial literacy training apps or other features, such as the ability to earn points on purchases or to earn cash back on transactions.

The new features of these cards overcome some of the main barriers to adoption faced by traditional secured cards, including high fees or deposits, or non-transparent processes and conditions (Center for Financial Services Innovation, 2016).

Other areas in which an innovative partnership can help MDIs achieve optimal growth include enabling access to specialized technology. For example, Visa has partnered with First Boulevard, a digitally native neobank focused on building generational wealth for Black communities. First Boulevard will be the first partner to pilot Visa's new suite of crypto APIs, which will enable their customers to purchase, custody and trade digital assets held by Anchorage, a federally chartered digital asset bank. The pilot will serve as a key first step in supporting API capabilities that help additional Visa clients access and integrate crypto features into their product offering.

Education and financial literacy support

Another important area for consideration is leveraging financial literacy support in ways to bolster the reach and impact of MDI interventions. Research indicates that financial literacy can help overcome significant barriers to wealth accumulation, especially in Black and Brown communities (Yakoboski et al, 2020). There is a strong link between financial literacy and financial wellness: greater financial literacy enables better planning and saving for retirement. Consumers with good financial literacy skills tend to have more non-retirement savings and to better manage their debt. They are less likely to be financially fragile. And they are more likely to understand their rights as customers. With nearly two decades of experience in developing financial literacy programs in over 30 countries, Visa has worked hard to build its capacity in this area. These programs are all designed with one goal in mind: To ensure that as individuals gain access to financial services, they do so with a sound understanding of money management.

Although what financial literacy means can diverge from country to country, the basics of financial literacy and market understanding are very similar (See Visa. Practical Money Skills). We are currently exploring how such programs might be developed to support the customer education efforts MDIs undertake, and whether and how companies working in innovation can add financial technology awareness to the efforts undertaken to educate disadvantaged persons about, and prepare them for, modern finance and markets.

Support for small businesses

Another important way to support MDIs is to empower the communities in which they operate. This includes helping the small businesses that make up a large part of their customer (and depositor) base. Surveys conducted by the Visa Economic Empowerment Institute indicate that during the Covid-19 pandemic, more small businesses want improved internet connectivity, assistance with digital commerce, and help with cybersecurity than want direct financial support from governments (Harper, 2021). Support for digitization of Black and Brown businesses, particularly in the short term, is key. Visa has committed to digitally enabling 50 million small businesses (Visa, June 2020). The Visa Foundation has pledged nearly $5 million in capital to minority-led small and micro businesses (Visa, December 2020). Through partnerships such as with Black Girl Ventures, Visa is working with local organizations and influencers to identify their most pressing technological needs and provide them with access to the products and education they need to help them thrive (Visa, March 2021).

Develop the pipeline

Finally, it is necessary to note that one of the most effective ways to increase equitable and inclusive products lies in diversifying the ownership, leadership, and staff in organizations that create and deliver technology- enabled products and services. Visa has established goals to increase the number of employees in the U.S. from underrepresented groups at the vice president level and above by 50 percent in three years, and to increase the number of employees from underrepresented groups at all levels in the U.S. by 50 percent in five years (Visa, December 1, 2020).[†] The Visa Black Scholars and Jobs Program aims to bring Black and Brown students into the payments world and to grow representation in this industry. These are important steps in making a long-term investment in Black and Brown students and increasing Black and Brown representation at Visa.

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About theVisa Economic Empowerment Institute

The VEEI is a non-partisan center of excellence for research and public-private dialogue established by Visa.

The VEEI's overarching mission is to promote public policies that empower individuals, small businesses, and economies. It produces research and insights that inform long-term policy within the global payments ecosystem. Visa established the VEEI as the next step in its ongoing work to remove barriers to economic empowerment and to create more inclusive, equitable economic opportunities for everyone, everywhere.

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