February 20, 2024

Natalia Li
Director, Office of Consumer Policy
1500 Pennsylvania Avenue, NW
Washington, DC 20220

RE: Request for Information on Financial Inclusion (Docket No. TREAS-DO-2023-0014)

Dear Director Li,

Consumer Reports[1] appreciates the opportunity to comment on the Department of the Treasury's (Treasury) request for information (RFI) on financial inclusion. Expanding access to safe and appropriate financial products and services for historically underserved communities has been recognized around the world as playing a critical role in improving consumer welfare and contributing to broader economic growth. We commend and fully support Treasury's efforts to develop a National Financial Inclusion Strategy (NFIS) and believe that the NFIS provides a unique opportunity to establish a shared, modern vision on what it means to be financially included and empowered in the U.S.

CR's responses to individual questions from the RFI can be found below.

Question A.1. How do you or your organization define financial inclusion?

(a) *Some definitions of financial inclusion include considerations of access, safety, usefulness, appropriateness, and affordability of financial products and services, among others. What are the key elements of your definition and why do you include them?*

While financial inclusion is a globally recognized policy priority, precise definitions vary. For example, according to the World Bank, *"financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way."*[2] The Center for Financial Inclusion defines financial inclusion as "*a state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. Financial services are delivered by a range of providers, most of them private, and reach*

[1] Founded in 1936, Consumer Reports (CR) is an independent, nonprofit and nonpartisan organization that works with consumers to create a fair and just marketplace. Known for its rigorous testing and ratings of products, CR advocates for laws and company practices that put consumers first. CR is dedicated to amplifying the voices of consumers to promote safety, digital rights, financial fairness, and sustainability. The organization surveys millions of Americans every year, reports extensively on the challenges and opportunities for today's consumers, and provides ad-free content and tools to 6 million members across the U.S.
[2] https://www.worldbank.org/en/topic/financialinclusion/overview

everyone who can use them, including disabled, poor, rural, and other excluded populations."[3] The United Kingdom's (UK) 2007 Financial Inclusion Action Plan states that *"financial inclusion is about ensuring everyone has the opportunity to access the financial services products needed to participate fully in modern-day society and the economy."*[4]

While definitions may vary across countries and contexts, there are often common themes to be found. Financial inclusion entails access to financial services for all consumers, in particular consumers who have been traditionally excluded or underserved (or ill-served) by the financial sector. It should encompass a range of relevant products, from accounts to savings to credit (i.e. beyond just access to bank accounts). These products and services should be affordable and high-quality in order to actually meet the needs and circumstances of underserved consumers and ensure that they can benefit from such products. They must also be accessible and convenient for consumers to obtain, addressing long-standing issues of physical access barriers, while being delivered in a fair and responsible manner. Lastly, an important component of financial inclusion is ensuring that these aforementioned elements can be provided in a sustainable manner by the market, as achieving financial inclusion at scale and over the long-term requires market-based approaches. All of these components are critical to include for a well-balanced and comprehensive conception of financial inclusion.

(b) Some topics related to financial inclusion include financial health, financial well-being, financial capability, and financial resilience. Do any of these or other related topics relate to or influence your definition of financial inclusion, and if so, why?

Financial health, financial well-being, and financial resilience are all related topics to financial inclusion, though we think they do not necessarily need to impact or change the definition of financial inclusion per se. Rather, we would recommend clearly articulating what is the overarching vision and objective of the NFIS. Financial inclusion is a broad concept. A NFIS is a time-bound, context-specific strategy. It therefore provides an opportunity to establish a clear vision of what the NFIS seeks to achieve with respect to financial inclusion within the NFIS's timeframe. The vision and objective of a NFIS should be tailored to the specific circumstances of a country.

In the case of the U.S., we believe that it would be most suitable to have an overarching vision that encompasses financial empowerment, financial stability, and financial resilience. The U.S. has already achieved high levels of account ownership, which is often viewed as the initial stage of financial inclusion. An estimated 95.6% of U.S. households currently have a transaction account.[5] However, while account ownership may stand at an all time high, recent research has shown an increase in financially vulnerable households (17% of U.S. households in 2023).[6] Only 49% of U.S. households have positive cash flow, spending less than their income,[7] indicating that a large proportion of households face issues with financial instability. Consumer Reports' nationally representative survey research found that 23% of Americans who have a personal bank account do not have a savings account.[8]

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[3] https://www.centerforfinancialinclusion.org/financial-inclusion-glossary
[4] Financial inclusion: an action plan for 2008-11. HM Treasury, December 2007.
[5] National Survey of Unbanked and Underbanked Households. FDIC, 2021.
[6] Financial Health Pulse - 2023 U.S. Trends Report. Financial Health Network, September 2023.
[7] Economic Well-Being of U.S. Households in 2022. Federal Reserve Board of Governors, May 2023.
[8] December 2022 American Experiences Survey of 2,017 US adults. Consumer Reports, January 2023. https://article.images.consumerreports.org/image/upload/v1672847923/prod/content/dam/surveys/Consumer_Reports_AES_December_2022.pdf

At the same time, the financial and economic landscape for consumers has been rapidly changing in recent years. The rise of the gig economy has increased income instability,[9] while inflation has impacted purchasing power and decreased the ability to save. Digital financial services (DFS) have become mainstream and widespread, reaching new consumers and enabling innovative new products and services, while also introducing new risks. Consumers' financial lives have become increasingly complex, with consumers juggling a mix of financial and quasi-financial products and services. For example, recent research has shown that 53% of Americans are now using digital wallets more often than traditional payment methods and value the convenience digital wallets provide. However, this innovation poses a double-edged sword, as 47% of Americans say that having access to digital wallets makes them spend more than when they use physical cards or cash, while 67% say they lose track of how much they've spent when using digital wallets.[10]

Given these various trends impacting U.S. consumers, a more sophisticated vision would be appropriate for the NFIS, one that goes beyond account ownership and perhaps beyond the traditional framing around usage and quality as well. Instead, a more ambitious approach could be to frame the objective of the NFIS around consumers being empowered to manage and thrive in their financial lives. Previous research has shown that 77% of U.S. households believe that financial stability is actually more important to them than moving up the income ladder, illustrating the high level of financial uncertainty and unpredictability that these households face.[11] The vision of the NFIS could encompass financial inclusion efforts that are specifically aimed at improving financial empowerment, financial stability, and financial resilience, critical and timely needs in the current U.S. context.

For example, the UK's 2007 Financial Inclusion Action Plan stated at the outset that *"the government's key goals for financial inclusion are about ensuring that everyone has access to appropriate financial services, enabling them to:*

- *Manage their money on a day-to-day basis, effectively, securely and confidently;*
- *Plan for the future and cope with financial pressure, by managing their finances to protect against short-term variations in income and expenditure, and to take advantage of longer-term opportunities; and*
- *Deal effectively with financial distress, should unexpected events lead to serious financial difficulty."*[12]

Notably, the UK Action Plan focused on concrete aspects of consumers' financial lives, namely control over daily money management, financial stability, and financial resilience. Similarly, the most recent UK Financial Inclusion Report 2021-22 focuses equally on ensuring access to financial products and services as well as building financial capability and resilience, specifically noting that consumers must be empowered to make the most of their money.[13] Framing the vision of the NFIS, as well as the

[9] 10% of consumers indicate that income variability causes hardships. These figures increase for Black and Hispanic adults as well as for adults with less education. See Economic Well-Being of U.S. Households in 2022. Federal Reserve Board of Governors, May 2023.
[10] https://www.forbes.com/advisor/banking/digital-wallets-payment-apps/
[11] Morduch, Jonathan and Rachel Schneider. Spikes and Dips: How Income Uncertainty Affects Households. U.S. Financial Diaries Issues Brief, October 2013.
[12] Financial inclusion: an action plan for 2008-11. HM Treasury, December 2007.
[13] Financial Inclusion Report 2021-22. HM Treasury, December 2022.

accompanying action items, specifically around what concrete aspects of U.S. consumers' financial lives financial inclusion is meant to enable would be a powerful approach.

Establishing a clear overarching vision and objective for the NFIS that is consumer-centric and incorporates financial well-being and financial stability is critical because this vision then guides the rest of the NFIS. Analysis of financial inclusion barriers can be focused and structured around specific pain points related to financial empowerment, financial stability, and financial resilience. Formulation of solutions and action items can be focused on achieving particular objectives, resulting in more targeted and concrete actions than possible if working under a broad and generic definition of financial inclusion.

Question A.2. What do you consider to be in and out of scope for efforts to promote financial inclusion?

(a) Which financial products and services should consumers be able to access in order to be considered financially included? Please provide specific examples. Are there particular qualities that are important for these products and services to have?

As discussed above, we would suggest centering the NFIS around specific financial inclusion objectives to be achieved, namely increasing financial empowerment, financial stability, and financial resilience. With these objectives in mind, the question would then turn to what types of financial products and services would best address these needs. For example, microsavings products, cash flow and liquidity management products, microloans, and microinsurance products would all be relevant for increasing financial stability and financial resilience. Tools that allow consumers to easily visualize their complete financial lives, to set goals, and to transfer funds safely and inexpensively would be beneficial for financial empowerment purposes.

Question B.1. Are there features of the existing financial system (for example, pricing strategies, fees, penalties, underwriting methods and standards, uses of consumer data, technological systems or constraints, institutional protocols related to fraud or risk management, or other features) that limit or create inequalities in the ability of consumers and communities to access, use, and benefit from financial products and services? Which features are the most limiting, and for whom? Please provide specific examples.

There are typically a range of common barriers to financial inclusion. From the consumer perspective, these can include lack of physical access to outlets, lack of appropriate products and services, high costs of products and services, discriminatory practices, lack of documentation, and lack of trust in formal financial institutions, among others. On the supply-side, barriers can be posed by low literacy of underserved consumers, thin credit files, and higher cost of servicing. All of these barriers have been cited as obstacles to financial inclusion in the U.S. to some degree.

That said, for purposes of the NFIS, we would suggest first identifying the highest priority gaps in financial inclusion in the country using an evidence-based approach. After established a key set of objectives around these gaps, the identification of barriers can be centered around these particular objectives. For example, if the main objectives of the NFIS are to empower consumers to manage their financial lives and achieve financial stability, then the focus of the NFIS should be on identifying the barriers and underlying obstacles to achieving these specific objectives, and the solutions needed to overcome these obstacles.

For example, as noted above, the financial lives of U.S. consumers are increasingly complex, with an increasingly wide array of different payment and credit products and services to choose from, scattered across different platforms and institutional types. Having the appropriate tools to manage one's financial life in a holistic manner, to set financial goals, and to easily transfer and consolidate funds across different products and services would help to empower consumers in their financial lives. But there are currently underlying obstacles to achieving such tasks, such as barriers in transferring data across institutions. Open banking, and even more so open finance, would help to facilitate such transfers. Permissioned data sharing can help consumers better manage their debt, budget their earnings, and save towards their goals. We therefore fully support the Consumer Financial Protection Bureau's (CFPB) efforts with respect to open banking,[14] while also highlighting the need to go further than the CFPB's current draft rule and cover a broader set of providers and products within an open finance system.[15] Including action items in the NFIS on progressing further in open finance could help to achieve the objective of empowering consumers in their financial lives, as could taking steps to address fees for making payment transfers across platforms.

Similarly, there are a range of barriers to improving financial stability and financial resilience. These include the lack of ability to save in small increments, inadequate financial management tools, and lack of short-term liquidity products. Underlying factors that may be contributing to these barriers could include regulatory obstacles that increase the costs of providing such products and lack of incentives or tools at the provider level to develop appropriate offerings. The NFIS could therefore include action items that seek to address these barriers. This could include exploring to what extent prudential requirements could be safely adjusted to provide greater flexibility to innovate in short-term liquidity product offerings. Tax incentives could be utilized to encourage product and service offerings that contribute to financial resilience. Policymakers could take steps to encourage and elevate emerging and innovative approaches across the market to proactively identify opportunities for microsavings and to automate such behavior. There could be opportunities to innovate in providing early access to earned wages through employer-integrated (and ideally no-cost) programs.[16] More broadly, policymakers could work towards ensuring that a financial health lens is more consistently integrated into financial institutions' internal operations, in order to encourage institutional behavior that goes beyond a focus on profitability of siloed business lines and instead considers not only the lifetime value of a consumer but their overall financial health and well-being as well.

Question C.1. What are key indicators that can be used to measure and track financial inclusion? If possible, please provide specific examples of existing data sources.

(a) What are appropriate quantitative and qualitative measures of financial inclusion? For example, this could include the share of households that own a credit card or transaction account, or consumers' beliefs about how well financial products and services fit their needs.

(b) What are appropriate individual and/or system-level measures of financial inclusion? For example, this could include the share of consumers' total payments made electronically, or consumers' average savings balances. More broadly, this could include metrics related to availability,

[14] https://www.consumerfinance.gov/personal-financial-data-rights/

[15] https://advocacy.consumerreports.org/research/consumer-reports-comment-letter-to-the-cfpb-on-its-personal-finance-date-rights-proposal/

[16] Any efforts in this regard would need to be careful to clearly distinguish from direct-to-consumer "earned wage access" models, which are essentially payday loans and should be treated as such.

affordability, utilization or benefit of financial products and services, such as the number of bank branches available in a certain area, average transaction costs, rates of utilization for a given product or service, or consumer outcomes related to productor service use.

(c) Are there any intermediate benchmarks or indicators that should be tracked to measure overall progress toward financial inclusion?

A range of key financial inclusion indicators have been identified in various global references. For example, the G20 Financial Inclusion Indicators focuses on three dimensions: (1) access to financial services, (2) usage of financial services, and (3) the quality of products and service delivery. Indicators include the following, among others:

- % of adults with an account
- % of adults who borrowed from a financial institution in the past year
- Insurance policy holders per 1,000 adults
- Retail cashless transactions per 1,000 adults
- % of adults who made or received digital payments
- % of adults who saved at a financial institution
- Branches per 100,000 adults
- Financial knowledge score
- Use of savings for emergency funding
- Disclosure index combining existing of disclosure requirements
- Index reflecting existence of formal internal and external dispute resolution mechanisms
- Strength of credit reporting systems[17]

The Alliance for Financial Inclusion (AFI) has also developed a set of financial inclusion indicators that are similarly grouped around access, usage, and quality.[18] In addition to these two references, the World Bank's Global Findex tracks a large number of demand-side financial inclusion metrics,[19] while the International Monetary Fund's Financial Access Survey tracks a large number of supply-side financial inclusion metrics.[20] While both of these latter two examples are broader data gathering exercises, NFIS indicators could be drawn from these sources as well.

We would suggest selecting, and adapting as needed, a subset of quantitative and qualitative indicators from these various sources, focusing on those most relevant to the specific vision and objectives of the NFIS. In particular, metrics related to the quality of financial inclusion, as well as to financial empowerment, financial stability, financial resilience, and broader financial well-being would be beneficial to track. Such metrics would likely need to involve developing indexes based on consumer survey data.

It is also important to consider the feasibility of gathering consistent, reliable data for selected indicators, which can often pose a challenge. Ideally, data sources would already be readily available for selected indicators, or it would be feasible to incorporate new indicators into existing survey instruments. It has been noted that comprehensive, granular data on financial inclusion-related issues is lacking in the U.S. This makes both diagnosing barriers as well as monitoring progress in addressing

[17] G20 Financial Inclusion Indicators. Global Partnership for Financial Inclusion, 2016.
[18] AFI Core set of Financial Inclusion Indicators. Alliance for Financial Inclusion, 2019.
[19] https://www.worldbank.org/en/publication/globalfindex
[20] https://data.imf.org/?sk=e5dcab7e-a5ca-4892-a6ea-598b5463a34c

barriers difficult. It may therefore be worthwhile and necessary for the NFIS to include specific measures to strengthen financial inclusion-related data infrastructure, in order to enable a robust monitoring & evaluation framework for the NFIS. This is a common action item in many NFISs around the world.

On a related note, we would strongly recommend that the NFIS include headline targets to be achieved. Beyond simply tracking progress on key financial inclusion indicators, the NFIS should ideally include a core set of specific quantitative targets that are intended to be achieved by the end of the NFIS. Headline targets can be a powerful tool that helps to galvanize action towards concrete results and maintain momentum (and pressure) over the course of a NFIS. Practically speaking, headline targets are beneficial in distilling and communicating the key objectives of a NFIS to a broader audience. In addition, the process of agreeing on and setting quantitative targets is often one of the most challenging yet substantive stages of the NFIS development process, as this is where the rubber meets the road. Headline targets should be ambitious but achievable. For example, headline targets could include increasing financial stability from 50% to 65%, or increasing financial resilience from 51% to 60%.[21]

Question D.3. What can be done to enable responsible, equitable innovation in financial products and services that enhances financial inclusion while ensuring robust consumer protections, including privacy and data security? For example, could novel data sources, data analytic techniques or algorithms be leveraged to promote access to financial products while ensuring privacy protections and safeguarding consumer data?

(a) What are examples of innovative financial products, services, and strategies that have enhanced individuals' ability to access, use, and benefit from these offerings?

(a) What can be done (in financial institution practice, policy, regulation, or otherwise) to ensure that efforts to promote financial inclusion, or products marketed as inclusionary do not result in or perpetuate discriminatory or predatory practices?

Financial consumer protection is a critical component of financial inclusion, hence the reference to responsible provision of financial products and services in many definitions of financial inclusion. It should obviously not be considered financial inclusion if products and services are being offered that are predatory and harmful to consumers. While there is an extensive financial consumer protection legal and regulatory framework in the U.S., numerous gaps still remain, particularly with respect to new fintech offerings. For example, there is an increasing array of quasi-credit products that fall beyond the existing the regulatory framework, such as buy now, pay later (BNPL) and earned wage access (EWA) products, that are touted as beneficial for consumers but pose risks due to a lack of transparency on fees and risks, aggressive marketing, and high pricing. Given the range of new offerings and technologies, it will be critical to ensure that new or enhanced types of consumer risks are adequately addressed by updating financial consumer protection regulatory frameworks where needed to ensure that consumers do not suffer harm to their financial well-being.

Artificial intelligence and machine learning (AI/ML) pose opportunities as well as risks for financial inclusion. AI/ML is increasingly being utilized by financial institutions for both back-end and front-end operations across the customer lifecycle, from targeted marketing to automated credit scoring to fraud

[21] For further details on establishing headline targets, see Financial Inclusion Targets and Goals: Landscape and GPFI View. Global Partnership for Financial Inclusion, 2013. See also Developing and Operationalizing a National Financial Inclusion Strategy. World Bank, June 2018.

monitoring and customer service. For example, ML models in credit underwriting could potentially help financial institutions reach underserved consumers with thin credit files. However, use of such models carries significant risk of perpetuating historical biases as well as creating new types of discrimination. Algorithmic systems (used for credit or insurance underwriting, risk-based pricing, etc.) can lead to discriminatory outputs due to the data used in such models or the model design itself. The NFIS could include action items on establishing clear and robust safeguards to ensure that ML models are developed with sufficient levels of explainability; that active steps are taken throughout the model development process to test for and minimize disparate impact; and that clear disclosures are made to consumers when they are subject to automated decisions as well as clear rights established to request human review of such decisions.

Lastly, a strong, comprehensive national data privacy legal framework is long overdue. Such a framework would help to establish a strong foundation to address broader data privacy and security issues that have accompanied the increasing digitization of the financial sector and the broader economy.

Question D.4. What should be prioritized (in policy, regulation, practice or otherwise) in the effort to promote financial inclusion?

In addition to the priority action items discussed above, there is significant opportunity to strengthen credit infrastructure, which is a key underlying enabler of financial inclusion. For example, consumers continue to face issues with errors in their credit reports. Recent analysis by Consumer Reports noted that having incorrect information on a credit report was the top complaint made to the CFPB for the past three years. In addition, the number of complaints about credit report errors more than doubled in recent years, from 165,129 in 2021 to 443,321 in 2023. About 13% of consumers have errors that affect their credit scores, while 5% of consumers have errors serious enough to cause a credit denial or raise interest rates.[22] The NFIS could include action items aimed at decreasing the level of errors in credit reports as well as improving the ease of addressing errors.

In addition, it would be beneficial explore concrete actions in the NFIS that would help to enable safe, consumer-permissioned use of alternative data for underwriting. For underserved consumers, particularly consumers who are credit invisible or have thin credit files, oftentimes rental or utilities payment data can make a substantial difference in credit scoring. But such data can currently be difficult to access. Legal or regulatory solutions could be explored to allow for access and use of such data in a safe, privacy-protecting, and responsible manner.

Additional inputs

On a broader level, we would like to take the opportunity to highlight key success factors for NFIS development and operationalization in case helpful. The World Bank has specifically identified the following ten success factors based on working on numerous NFISs around the world:

1. Early and sustained engagement of relevant stakeholders—including the private sector—to create broad buy-in and align efforts across financial and non-financial policy areas

[22] https://www.consumerreports.org/money/credit-scores-reports/credit-report-error-complaints-surge-check-your-report-a1194343465/

2. Investment in data and diagnostics work to ensure that the NFIS is grounded in a robust evidence base and accurately identifies constraints and opportunities relevant to the achievement of greater financial inclusion
3. Identification of high-level champions within key institutions who can integrate relevant NFIS actions into institutional work plans and advance their implementation
4. Clear articulation of NFIS objectives and targets to ensure a shared understanding of expected outcomes
5. Prioritization of forward-looking NFIS actions that emphasize digital approaches, proportionality, and the needs of financial consumers
6. Establishment of inclusive but efficient governance arrangements to facilitate collaboration and consultation throughout the NFIS implementation period
7. Mobilization of resources prior to NFIS launch—including those needed for "quick win" actions and Secretariat staff—to build momentum and demonstrate credibility
8. Effective communication and branding of the NFIS, including the signaling of early implementation successes
9. Flexibility to adapt NFIS elements during implementation to reflect market developments and emerging policy priorities
10. A well-resourced and robust M&E system to track implementation progress, identify bottlenecks, and inform course corrections[23]

Several of these success factors have been mentioned previously. We would especially note the first success factor – the need for sustained engagement from both public and private stakeholders as the ultimately implementors of a NFIS. We would recommend continued and substantive engagement with all relevant stakeholders throughout the NFIS development process.

In addition, particularly for the U.S. context, we would highlight the need for coordinated action across a wide range of actors. As much as possible, the NFIS should be opportunistic and leverage existing initiatives and programs across various government agencies that can be utilized to advance NFIS objectives and action items.

In conclusion, we would like to reiterate our strong support for the development of a NFIS and appreciate the opportunity to submit these comments. For further information, please contact Jennifer Chien at jennifer.chien@consumer.org.

Sincerely,

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[23] Developing and Operationalizing a National Financial Inclusion Strategy. World Bank, June 2018.