Why Mission-Minded Fintechs May Be the Key to Closing the Savings Gap

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Financial technology, or "fintech," companies present a powerful opportunity to apply emerging technologies to deep-rooted financial inequalities. I see the clear potential for fintech to create inclusive products that boost savings every day at SaverLife. SaverLife is a nonprofit fintech with a mission to help families build emergency savings and long-term financial stability. I joined the team in part because I recognized that, as new tech-driven financial products and services emerged, low-income communities were at risk of being excluded from the benefits of technology.

When I think about how we can enact real financial change for our members, I think of women like Laurynn, a single mom and small business owner whose income and ability to save was decimated by the pandemic. But, she told us in October 2020, "I've still been saving when I can."

Laurynn's commitment to saving could make a big difference for her future. The Federal Reserve reports that four out of 10 Americans have less than $400 in savings. Millions of Americans are living paycheck to paycheck due to volatile and low incomes, but there is hope.[1] Our research shows that even small amounts of savings can help people build financial security and prepare for the unexpected. My experience leading SaverLife has shown me time and time again that the savings crisis is a solvable problem.

Fintechs provide advantages of speed, flexibility, and rapid experimentation. However, in order for these advantages to make an impact, the risks of security, data protection, and digital barriers must be addressed. Fintechs possess the technology to develop and distribute financial tools to the people who need them most—but only if the products are well designed, with a deep understanding of the target market and a clear commitment to advancing a more equitable financial system for all consumers.

1 Board of Governors of the Federal Reserve System, "Report on the Economic Wellbeing of U.S. Households in 2018" (Washington, DC: Board of Governors of the Federal Reserve System, May 2019).

Nonprofit Fintech Organizations Are Uniquely Positioned to Build Financial Security

A 2017 research paper from Harvard University estimated that fintech products could address the needs of up to 15.6 million low-income workers in need of a savings safety net.[2] Mainstream financial institutions are not always well equipped to meet the savings challenges people with low and volatile incomes face. Fintechs have an ability to rapidly design products that can be customized to a user's location or financial situation. A reliance on traditional financial products, bricks-and-mortar locations, and valuing profit over mission limits the ability of these institutions to drive true systemic change.

This is especially true in regards to closing the racial wealth gap. Historically, policies and financial institutions have excluded people of color from wealth-building opportunities through overt practices, such as redlining, and requiring people in lower-income areas to maintain an unrealistically high balance. The racist legacies of these long-standing policies have locked millions of Americans out of opportunities for economic security and prosperity. Today, a white family holds nearly 10[3] times the wealth of a Black family, partly because they are more likely to own homes and/or receive an inheritance or gift.[4] Fifty-nine percent of SaverLife members identify as people of color. Everything we do is aimed at closing the wealth gap these members face by meeting their specific financial needs.

Nonprofit fintech organizations are particularly well suited to meet these needs because we prioritize impact over profit and are specifically working to build solutions for populations traditionally excluded from products designed to build wealth.

Why Technology Is Effective at Boosting Savings: Technology Allows Rapid Scaling

Reason #1: Speed

Technology allows for small teams to respond quickly and at scale.

Fintechs have the advantage of speed, whereby small teams and relatively small investments go further to reach far more people than can be reached without innovative technology.

Nowhere was this more evident than in 2020, when the COVID-19 pandemic caused life—and incomes—to grind to a halt. Although many entrenched institutions took weeks to provide aid, fintechs were able to respond immediately to the economic consequences of the pandemic.

For example, SaverLife was able to leverage our payments technology to begin distributing one-time cash grants within three weeks of the first lockdown. Over 4,500 SaverLife members received cash grants between $500 and $1,000. Members used these grants to pay rent, buy groceries, and shore up their emergency savings. Those who received a grant were 104 percent more likely than

2 Todd H. Baker, "FinTech Alternatives to Short-Term Small-Dollar Credit: Helping Low-Income Working Families Escape the High-Cost Lending Trap," *M-RCBG Associate Working Paper Series*, May 2017.
3 Kriston McIntosh et al., "Examining the Black-White Wealth Gap" (Washington, DC: Brookings Institution, February 2020).
4 Board of Governors of the Federal Reserve System, "Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances" (Washington, DC: Board of Governors of the Federal Reserve System, September 2020).

those who didn't to increase their savings balance by $100 or more in May 2020.[5]

Rachel, an office manager who lost her job when the pandemic began, used the grant to shore up her savings against future disasters. "I have been a regular saver, but I didn't have six months of living saved up or anything like that," she said.

The scalability of technology means that small, agile organizations can respond quickly to changing circumstances in order to meet consumer needs, whether by encouraging savings or responding to a global pandemic.

Reason #2: Flexibility

Technology meets people where they are and gives users flexibility.

In 2019, the Federal Deposit Insurance Incorporation (FDIC) published a paper finding that, while the majority of American adults have a bank account, there are still significant financial access gaps. The survey found that 5.4 percent of U.S. households were unbanked. This means that approximately 7.1 million households do not have access to a checking or savings account. This disparity extends to saving for emergencies. The survey found that only 26 percent of unbanked households had saved for an unexpected expense in the past year—compared with 66.4 percent of banked households.[6]

This lack of traditional banking products is even more prevalent among SaverLife members. Seventy-four percent of SaverLife members have a PayPal account, and 27 percent said they didn't have a traditional bank account. We committed to closing the racial wealth gap and using software that is inclusive of all financial management methods. Thus, when we learned about the financial management choices of our members, we incorporated PayPal into our onboarding process. As a result, we saw an immediate uptick in signups. Last year, we took this one step further and integrated software that allows us to offer prizes and savings matches via traditional banking methods, PayPal, Venmo, or a prepaid card.[7]

We also prioritize using marketing channels that will reach low-income women of color. SaverLife partnered with Fresh EBT, a mobile application that helps users manage their SNAP benefits, to advertise our program. This partnership has brought 210,000 members to our platform, many of whom are likely in need of innovative financial solutions.

Fintechs can create inclusive products that work for a range of circumstances, allowing consumers to weave together a bank-like experience even if they are unable or unwilling to access an account at a traditional bank or credit union. Technology can remove financial barriers by providing savings options to individuals, regardless of their banking choices.

5 SaverLife, "A $500 Lifeline: Pandemic Cash Grants Help Low-Income Americans Survive a Summer of Uncertainty" (San Francisco, CA: SaverLife, October 2020).
6 Federal Deposit Insurance Corporation (FDIC), "How America Banks: Household Use of Banking and Financial Services." FDIC survey (Washington, DC: FDIC, 2019).
7 SaverLife and MetLife Foundation, "Design Matters: Testing Hypotheses Leads to Better Outcomes" (San Francisco, CA: SaverLife; New York: MetLife Foundation, September 2019).

Reason #3: Product Design

Technology makes it possible to easily conduct customer research, experiment with solutions for target groups, and segment users.

Research

Access to data on user behavior makes it possible for fintechs to conduct real-time research and quickly prototype new features and products that users need. For example, after discovering that members who joined SaverLife with less than $100 in savings were far more likely to struggle to save, we conducted testing to see if automatically setting a customized, one-month savings goal would improve saving outcomes. Receiving this goal messaging improved the odds that a member would save $100 in a month by 26 percent. As a result of these insights, we are implementing a welcome messaging program for all new SaverLife members.

This research can be conducted in a controlled environment and move faster than traditional research methods because of immediate access to data. This type of rapid research can create better financial products and services. It can also be a valuable tool in understanding the financial lives of low-income families and aid in developing policy solutions and other interventions that can effectively build financial stability.

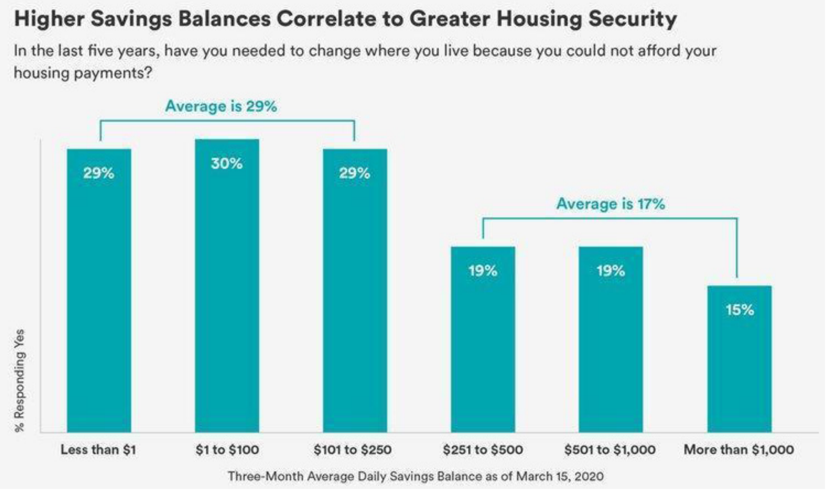
Carrice's hours were cut at the beginning of the pandemic—right after she'd given birth to her second child. Despite her reduced income, Carrice made an effort to put money away.

"Right now I have $105 in savings," she said in October 2020, "which makes me feel a little bit better."

Our research suggests that this $105 didn't just make Carrice feel better—it also provided a crucial financial safety net, as evidenced by critical research we published late last year:

SaverLife partnered with the FINRA Foundation to shed new light on the role savings plays in shaping financial well-being and stability for lower-income households in the United States. The results indicate that the positive impacts of savings are extremely impactful, even at relatively low dollar amounts. A savings balance over $250 was correlated with keeping people in their homes, and having over $100 in savings greatly reduced the likelihood of having utilities shut off.[8]

8 Financial Industry Regulatory Authority (FINRA) and SaverLife, "Savings: A Little Can Make a Big Difference" (Washington, DC: FINRA; San Francisco, CA: SaverLife, December 2020).



These results are proof that small amounts of savings can make a big difference. Yet many savings programs promote savings in much larger increments, such as three to six months of living expenses. This type of high-dollar savings is simply not an option for many people. SaverLife encourages our members to make savings a habit, regardless of the amount they are able to save.

"You guys definitely taught me that even if it's $5, that's $5 you didn't have before," one of our members and emergency grant recipients, Mahiyat, said. "That's $20 a month more than the month before. It adds up, anything you can put towards yourself."

Studies like this provide direction for savings organizations that can help close access gaps in financial products. Tailoring financial products to incentivize small-dollar savings could help individuals quickly build $100 in financial security. Fintechs have the technical capability to invest in this kind of research and let it guide the tools we create.

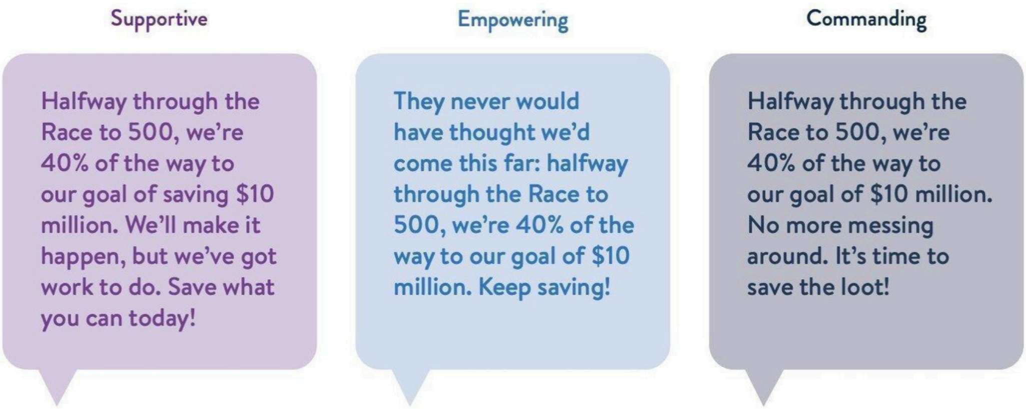
Experimentation

Digital technology allows fintechs to test simple ways to help people build savings. Prioritizing these experiments allows fintechs to then evolve and improve their products to maximize savings.

In 2020, SaverLife partnered with the Financial Health Network's Leaders Lab to conduct a study examining, among other things, the impact of motivational text messaging on savings rates.[9]

During a nine-week savings challenge, SaverLife tested three different message tones based on three different personas: supportive (inspired by Mother Teresa), empowering (inspired by Michelle Obama), and commanding (inspired by Mr. T).

9 Financial Health Network Leaders Lab and SaverLife, "Boost Savings with Challenges and Empowering Messages" (Chicago, IL: Financial Health Network Leaders Lab; San Francisco, CA: SaverLife, December 2020).



The results were surprising. Messages featuring a supportive tone had a negative impact on savings behavior, messages with a commanding tone led to no change, and messages featuring an empowering tone had a positive impact. Those who received messages from the empowering Michelle Obama persona increased savings deposits by 53 percent over six months.

As a nonprofit, SaverLife is committed to publishing the results of our experiments to further advance the financial health sector. This experiment offers simple insights that any savings organization could implement to boost savings. Further experimenting and testing could lead to refinement of these findings and even more impactful results.

Segmentation

Low- to moderate-income individuals are not a monolith. There is no one-size-fits-all savings solution. Tools that work for young mothers may not be effective for elderly veterans, but through segmentation, fintechs have the powerful ability to provide customized tools to target populations.

For example, SaverLife recently discovered that members who join the platform with a balance over $100 are far more likely to make continuous deposits and grow their balance. We are now testing different ways to engage members with balances under $100 to jumpstart their saving. SaverLife also found that giving people with a savings balance of under $100 a one-month goal to save $100 was an effective challenge to help build their savings balance. Technology enables fintechs to segment users and meet both of these needs at the same time, offering a more effective and personalized experience.

Through creating a continuous feedback loop, we strive to ensure that we are effectively meeting the needs of our members. To this end, we created the Member Panel, a group of 2,200 members representative of the gender, income, and racial makeup of the population we serve. Before building something, we test our assumptions by contacting the Member Panel to get their insights into what they need and how they use our platform.

These advantages make it possible not only for fintechs to adapt more quickly to the needs of low-income individuals, but also to produce more effective innovations that drive real results.

Managing the Risks of Technology

Despite the many advantages fintechs bring, there are also potential pitfalls. New barriers caused by a digital divide or lack of trust in technology can prevent target populations from using these services or open them up to new types of risk.

Addressing Potential Risks

1. Security must be a priority.

Users of technology platforms trust developers to safeguard sensitive information. Honoring this trust requires making critical investments in data and information security to safeguard against phishing attempts, hackers, and fraudsters. In the nonprofit fintech space, this means that philanthropic organizations—the main source of investment in nonprofit fintech—must also be willing to invest in their information security needs.

2. Infrastructure is essential.

As the pandemic highlighted, it's difficult to move money efficiently to a lot of people, especially when those people may be underbanked. To execute its cash grant program, SaverLife integrated a new technology called HyperWallet, which allowed the organization to offer multiple secure payment methods via ACH, PayPal, Venmo, or a prepaid card. Building this infrastructure upfront can help fintechs ensure they are ready to meet the needs of those they serve when a disaster strikes.

3. Digital barriers must be considered.

To provide inclusive solutions, fintechs must consider digital barriers. SaverLife has addressed digital barriers by providing clear communications about the security of linking a bank account, as well as providing a mobile-friendly platform that can be joined via web browser and doesn't require access to mobile applications. Our work in communities like Johnstown, PA, and Bluefield, WV, has taught us exactly how important addressing the digital divide is to fostering savings success. Our analysis has found that less digitally literate communities need support to understand how to link their bank account to SaverLife's platform. We are continuing to experiment with ways to better break down these digital barriers.

Fintechs should design products that allow people to gain control of their financial futures with the digital resources available to them, which are often mobile.

4. Bad actors can abuse consumer trust and consumer data.

The agility of technology can attract bad actors such as lenders parading "innovative" financial products in order to subvert consumer protections. Ethical fintechs must prioritize the financial well-being of those they serve and avoid using legal loopholes for profit, and regulators must move swiftly to root out bad actors—a major challenge in a rapidly changing tech environment.

The ease with which data can be collected, bought, and sold has led to an explosion of hyper-targeted marketing of financial products to low-income consumers. These marketing tactics use the power of technology to provide near-instant underwriting and access to funds, making it easy for consumers to find themselves in an unrelenting cycle of debt.

Technology is only as beneficial for society as the people making it want it to be. By addressing these concerns up front, mission-minded fintechs can position themselves to be a trusted and ethical financial resource.

Conclusion: Fintechs Can Build Mission-Minded Technology to Create an Inclusive Financial Future

Through a cycle of testing, research, and innovation, fintechs can lead the field in breaking digital barriers and using technology to close the wealth gap and help individuals build savings. By prioritizing user security and ethical data management, fintechs can minimize security risks and maximize the benefits of the products we offer.

One of our members, Zakia, credits SaverLife with helping her go from $0 to $3,000 saved.

"I want to be financially secure," she said. "Using SaverLife helped me put money in my savings account so that when those emergencies happen, I'm prepared."

Hard-working people are doing their best to build financial security with the limited resources available to them. The work fintech companies are doing to make that future a reality can support and accelerate people's progress and ensure a more equitable financial system for all. But only if we start with that goal in mind.

Leigh Phillips *is the President & CEO of SaverLife.org, a national nonprofit that helps working families achieve prosperity through savings. Since joining in 2015, Leigh has led the company's transformation from a local direct service organization to a leading financial technology nonprofit. The flagship program, SaverLife, now serves 500,000 clients across all 50 states.*