

Breaking the barrier of financial inclusion in America: which way forward?

FINANCIAL INCLUSION

According to World Bank, financial inclusion is when every qualified individual is given access to financial services. The low-income individuals in the country have mainly been looked down upon when it comes to being considered for financial services, subjecting them to a continuous cycle of poverty. Hagstrom & Pereira (2021, 756) discussed that according to Global Finance Magazine's research, the U.S. ranks 9th in terms of financial inclusion worldwide, meaning more effort must be made to improve the situation. Zili (2021, 457) found out that Texas is the region that suffers highly when it comes to financial exclusion in the country because of many immigrants. Financial inclusion should be one of the top priorities for any prosperous nation because it leads to an equitable society where everyone can access various financial products (Mader, 2018, 472). Access to financial services is vital because it acts as a means for economic empowerment whereby those who get credit can venture into various businesses and create a source of income. The banking institutions provide a platform for people to save for future uncertainties, shielding them from financial shocks (Nelson et al., 2018, 203). The high number of individuals that can't get financial services means that concerned people should examine the nature of U.S. financial inclusion, identify critical barriers to financial products, and develop strategies to eliminate them to improve the country's economic status.

Data on Federal Deposit Insurance Corporation reveals that the U.S. is regarded as a global economic leader, with over 4,135 commercial banks (BankFind Suite, 2022, 3). However, it still faces significant financial inclusion gaps. Recent research shows that about 5.5% of families in the country are unbanked. Additionally, about 19% of people are underbanked, which implies they possess bank accounts but still rely on substitute financial products (Zili, 2021, 459). The substitute financial products are sometimes expensive and subject those depending on

them to a debt cycle that leads to economic instability because of the informal structure of the alternatives. The impacts of financial exclusion can be severe, whereby those who do not have access to financial products can have difficulties in saving for uncertainties, getting loans, and generating wealth. It is a situation that minimizes economic movement for those affected (Mader, 2018, 471).

Various barriers interfere with financial inclusion achievement in the country. Income inequality is a significant barrier in the U.S. that affects unemployed people or those earning little in their jobs. Most of the time, such individuals face challenges in providing their families with basic needs. They often have little money to save, open businesses, or indulge in regular financial banking (Sanderson et al., 2018). Such limitations subject them to the poverty cycle, increasing the gap between the wealthy and the underprivileged. Besides having little to save in traditional banks, low-income earners find it difficult to pay the high fees charged on various financial products or sometimes do not have the required credit score to access loans for self-improvement (Hagstrom & Pereira, 2021, 756).

Lack of enough financial literacy is another significant barrier to financial inclusion because, without the right kind of knowledge, people can lack information on financial services. People from low-income families are the primary victims of the lack of expertise regarding financial practices such as managing loans and saving well (Grohmann, 2018, 87). Knowledge of various financial practices is often associated with advanced education levels, which is not a characteristic of low-income families. In the U.S., 29% of people of color lack financial information, so they suffer more from financial exclusion (Lusardi, 2019, 4). Most people from such backgrounds have basic education and sometimes do not understand the importance of

financial services. They may become reluctant to use the services or make poor decisions when choosing financial services (Fasnacht, 2018, 102).

Discrimination and bias is the last barrier to financial inclusion in the country. Individuals from ethnic minority groups are frequently looked down upon regarding financial services, limiting their ability to access them (Philippon, 2019, 17). Some of these ethnic groups comprise illegal immigrants who lack the proper papers to have decent jobs and are considered to lack the legal documents to open banks (Kabakova & Plaksenkov, 2018, 202). Other people believe they do not have the money to afford financial services. The lack of representatives in financial institutions also contributes to the barrier since they do not have people inside to make those responsible for providing financial services understand their particular needs leading to exclusion from services offered. Studies conducted in 2021 revealed that only 5.1 of Hispanic people held administration roles in banking institutions (Aslan et al., 2017, 34). It means that only a few managers understand the financial struggles of the Hispanic people.

Various approaches should be used to address the barriers. Income inequality can be solved by improving workers' rights, whereby low-income employees can bargain for better pay, leaving them with enough money to use financial services. The income inequality barrier can also be solved by encouraging the unemployed and those that earn less to invest in businesses which can be a source of income and a means of elevating the economic situation (Demirguc & Singer, 2017, 19). Financial institutions have a wide variety of services that can benefit businesses. Still, people must first open ventures to increase their chances of getting loans from any bank.

The lack of financial literacy can be solved by equipping people with financial knowledge and good decision-making skills. Such knowledge can change their perception of

financial institutions and motivate them to use the various services. An effective way of making people from low-income backgrounds financially literate is introducing such kind of education in the early stages of schooling (Lusardi, 2019, 4). It will help give them a foundation on vital topics such as saving and borrowing wisely. The government can also invest in targeted programs that have tailored education to cater to the needs of low-income families. It is a vital measure because it ensures that the education offered is relevant to them, which can improve the country's general economic status in the long run. For instance, in Japan, the Financial Service Agency was established to enlighten people on financial education in learning institutions and areas of work. It helped improve the financial inclusion rate by 8% in 2020 (Billan et al., 2018, 27).

Lastly, discrimination and bias against minority groups can be solved by increasing diversity in financial institutions. When minority groups have representatives in such institutions, the representatives enlighten those in charge of financial products, understand their particular needs, and increase the chances of being considered for access (Gabor & Brooks, 2017, 431). Discrimination can also be solved by leaders formulating anti-discrimination policies that ban discrimination when providing financial services so that everyone is considered equally (Kim et al., 2018, 23). Such laws can also ensure everyone has equal employment opportunities; hence even people from poor backgrounds can get well-paying jobs and afford various financial services.

Technology is vital in enhancing financial inclusion in the U.S. Various aspects, such as digital banking and online financial platforms, are crucial in increasing the accessibility and convenience of financial services compared to regular banking institutions. The bank-related apps enable people to do financial transactions using mobile phones, which helps to eliminate the

proximity challenge (Neaime & Gaysset, 2018, 236). The apps are also coupled with crucial financial information that can be used for educational purposes and help people make informed choices, especially those from low-income backgrounds. With the continuous growth of technology, financial institutions are downsizing their staff and operations because many services are now available online hence using the saved incentives to make their financial services affordable (Kabakova & Plaksenkov, 2018, 201).

Leaders also have a vital role in improving financial inclusion in the country. They should formulate laws allowing more spending on community programs offering financial literacy. The policies should ensure that such kind of programs is most concentrated in low-income communities that are the ones that have many illiterate people (Patron & Pekhalskii, 2018, 199). The leaders can also develop policies that create a conducive business environment to enable people to venture into business and elevate their economic situation, allowing them to use financial institutions (Yangdol & Sarma, 2019, 171). They can also advocate for financial literacy to be offered in the early stages of students' lives that will make them understand basic economic principles at a tender age.

Lastly, credit unions can also positively impact financial inclusion and leave the country in a better economic state. Credit unions are responsible for providing affordable services such as loans and mortgages (Célerier & Martray, 2019, 4769). They often have cheaper rates than traditional banks, making them a reliable alternative for low-income earners. They also offer financial education to help people understand how to use their money well and make appropriate decisions. Part of their focus is serving minority groups by providing customized services to cater to their needs (Zachosova et al., 2018, 30).

In conclusion, the country should promote financial inclusion to establish an equitable and thriving society. About 5.5% of U.S. families are unbanked and find it challenging to improve their financial situations because such families do not have access to financial services. Income inequality is the primary barrier to financial inclusion because low-income earners cannot pay the high fees on various financial products. It can be solved by encouraging the unemployed and those that earn less to invest in businesses which can be a source of income and a means of elevating their economic situation. Lack of enough financial literacy is another significant barrier to financial inclusion because it makes people lack information on various financial services. The lack of financial literacy can be solved by teaching students business skills in early learning stages and providing them with good decision-making skills. People need to elect leaders who advocate for policies that allow more spending on community programs offering financial literacy. Such programs will make people understand the need to use various financial services.

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