

# Serving the Underserved, Technology Levels the Playing Fields

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**D**eep in the trenches of American banking, technology is emerging as both a differentiator and enabler. The Federal Deposit Insurance Corporation’s Annual Summary of Deposits survey reveals that tried-and-true technology remains the principle driver of revenue success at the top 15 banks.

What’s good for the giants is also good for the credit unions.

Credit unions, however, are using emerging tools and capabilities to drive inclusion of a more diverse customer base to benefit minority communities where access to financial products is often lacking.

## DIGITAL EXPANDS ACCESS TO SERVICES

From the very beginning, the credit union mission has been to foster financial inclusion. The fruits of that dedication are being seen today as minorities now account for 61% of credit union growth over the last five years, according to research by CUNA Mutual Group.

An expansion of digital capabilities is making it possible for credit unions to reach more members with everyday access to critical financial services. While simply a matter of convenience for most members, digital channels can provide a banking lifeline for minority and other underserved communities.

For one thing, minority groups represent the majority of unbanked households, where income disparity continues to be a leading factor. According to a 2019 study by the FDIC, nearly half of unbanked households can’t meet minimum balance requirements for opening

new accounts.

On the other hand, digital channels and technologies create streamlined efficiencies, allowing credit unions to provide financial services at lower cost. New innovative payment solutions are another benefit to minority communities, offering simple alternatives to cash transactions.

## SUPPORTING BUSINESS SUCCESS

The technology supporting digital transactions is also key to achieving equality in lending for minority or underserved communities. Individuals and businesses here can face language barriers and lower financial literacy, all factors that impact access to financing.

The impediments to fair and equal lending were evidenced when a three-day New York City blackout nearly destroyed the livelihood of many Hispanic business owners in the Washington Heights area of the city 20 years

ago. Spoiled goods resulted in high losses that threatened the profitability of florists, grocery stores, butchers and other small businesses that depended on the electric grid to support basic business operations.

Credit unions tried to help with SBA-backed loans, but the complicated lending process was a deterrent to business owners, many of whom did not speak English. As a result, these small-business owners turned to alternative lenders. It was easier to apply and faster to receive funding. But instead of realizing the benefit of financial assistance, most were taken for a ride, forced to pay 2-5% a week in interest.

The Covid-19 crisis represents another challenge to minority firms. According to a study conducted by the Global Strategy Group for Color of Change and UNIDOSUS, more than half of African American- and Latinx-owned businesses need financial assistance to survive the economic effects of the Covid-19 pandemic<sup>1</sup>, but only 1 in 10 who sought relief was granted assistance. Limited access to funding for minority firms is not confined only to times of societal turmoil, however.

Research conducted by the Minority Business Development Agency reveals that minority-owned small business are less likely overall to receive fair funding than white-owned firms. And yet, minority businesses currently employ 7.2 million Americans, according to a 2019

Presidential Proclamation on Minority Enterprise Development Week.

The inability to access critical funding can have a significant impact on the community, resulting in layoffs or an inability to hire. And when wage shortages or unemployment hits local residents, women and people of color are less likely to be eligible for loans to survive hard times.

## DIGITAL SOLUTIONS CAN HELP

For credit unions looking to expand lending access to non-traditional borrowers in underserved communities, expanded data insights, supported by technology enhancements, enable a new type of credit decisioning. It starts with an interconnected digital environment, where each and every transaction can generate reams of data.

Applying analytics to the data collected can reveal new borrower insights. When combined with information from third-party sources, credit unions not only gain access to a broader view of the borrower, but also the organization's lending portfolio and the market at large.

With a better understanding of market and borrower risk, financial institutions can easily configure financial ratios to enable assessments that more accurately represent minority-owned firms.

As the pandemic continues to ravage minority communities, educating communities on financial matters becomes critical. A recent study conducted by the Urban Institute revealed that 400,000 mortgage borrowers were delinquent on loans backed by the federal government and open to a forbearance agreement under the CARES Act. However, many of these borrowers do not know that they are eligible for forbearance or how to go about requesting it.

In situations like these, the credit union plays a pivotal role as educators. Data analytics support education initiatives by identifying distressed borrowers and providing insights for targeted outreach.

It's another example of how today's technologies can be used to strengthen member relationships and create a

more diverse credit union community. The great news is that financial institutions have more options to gain access to critical capabilities like these without having to develop such capabilities in-house.

## ROLE OF APIs AND ECOSYSTEM

Cloud-based platforms utilizing APIs (Application Programming Interfaces) make it possible for credit unions to access the technology they need to support minority communities with critical banking services.

In simplest terms, the cloud is a group of servers that host multiple platforms. Platforms house software in the form of applications that streamline and simplify access to common banking products.

APIs are a connection layer between credit unions and the applications hosted on cloud-based platforms. Through APIs, credit unions can plug into a variety of products and services without the need to alter existing systems and infrastructure.


New technologies like these are making it possible for credit unions to overcome the stranglehold of legacy core systems by migrating critical operations, such as universal loan and deposit servicing, customer management, general ledger and system administration to the cloud. In doing so, credit unions create a streamlined environment where members move seamlessly between digital channels and the branch, creating greater access for minority communities.

Migrating to a cloud-based core also centralizes data, including information from typically extra-core modules, such as collections, sales and services and card management. A single unified source of data is the basis for analytics applications that support fairer lending decisions and targeted communications to educate members on the financial matters that impact their lives.

This consolidated view of data also supports faster and more efficient reporting and analysis, another factor behind equitable credit decisions as well as credit union profitability.

## INNOVATION AND COLLABORATION

Looking toward a future where inclusivity is part and parcel of credit union operations, API-driven innovation and collaboration is essential. Leading solution vendors realize that limiting innovation to their own systems or in-house teams can rob the credit union and the community of critical new products and services. So, they open APIs to third-party fintechs and developers, creating a broader ecosystem of offerings to credit unions through a simple plug-and-play functionality.

Credit Unions have already recognized that the world is drastically changing. Technology is leveling the playing field and making it possible for credit unions to provide access to the banking services minority communities need to ensure a sound financial future. 

### About Finastra

*Finastra is building an open platform that accelerates collaboration and innovation in financial services, creating better experiences for people, businesses and communities. Supported by the broadest and deepest portfolio of financial services software, Finastra delivers technology to financial institutions of all sizes. Learn more at [finastra.com/communitymarkets](https://finastra.com/communitymarkets).*

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### Footnote

<sup>1</sup> <http://publications.unidosus.org/bitstream/handle/123456789/2051/UnidosUS-Color-Of-Change-Federal-Simulus-Survey-Findings.pdf?sequence=1&isAllowed=y>