Reducing the Racial Financial Health Gap: The Opportunity for Responsible FinTech

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BACKGROUND
The ongoing COVID-19 pandemic has disproportionately impacted the Black community in both health and economic effects while also shining a light on historical racial wealth and financial health gaps in America. Closing these gaps will require that structural, systemic, and historical economic disparities are addressed through significant public policy changes.

As part of PayPal's $535M commitment to addressing racial inequities and working towards closing the racial wealth gap, we have partnered with two Historically Black Colleges & Universities (HBCUs) and the Congressional Black Caucus Institute (CBCI) to produce a white paper analyzing key factors that have led to those issues and provide recommendations for the public and private sector to begin eliminating barriers.

OVERVIEW
The ability of Black households to spend, save, borrow and plan – within the context of structural racism – can be used to explore the nuances of disparities in financial health and wealth creation. Moreover, financial knowledge or financial literacy is one of the determinants of an individual’s or group’s financial behavior regarding accumulation or loss of wealth. By analyzing the financial behaviors of households, and racial discrimination with respect to education, income, employment, and banking access, we seek to make recommendations toward reducing the wealth gap between Black households and white households. Thus, making a direct connection between the impact that improving financial health can have on closing the racial financial wealth gap.

WEALTH
is a measure of the value of all the assets of worth owned (cash, cars, homes, bonds, money in bank accounts, furniture, artwork, etc.) by a person, community, company, or country and is determined by taking the total market value of all physical and intangible assets owned, then subtracting all debts.

FINANCIAL HEALTH
is defined as “a composite measurement of a person’s financial life that assesses whether people are spending, saving, borrowing, and planning in a way that will enable them to be resilient and pursue opportunities over time”.
**Partner with lesser-known HBCUs on financial health curriculum, education & recruitment**

**Establish company missions to help underserved**

**Create inclusive financial services products focused on Access to Capital, Savings, Cash-Flow, etc.**

**Meet people where they are in their communities (CDFIs, MDIs) through partnerships.**

**Partner with banks focused on racial equity, and engage with BIPOC VCs when looking for financing and with BIPOC asset managers when investing.**

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**FINTECH RECOMMENDATIONS**

- Partner with lesser-known HBCUs on financial health curriculum, education & recruitment
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**DETERMINANTS OF THE RACIAL WEALTH GAP**

- Banking Access & Fees
- Education
- Employment
- Homeownership

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**PUBLIC POLICY RECOMMENDATIONS**

- Create and mandate Financial Health Curriculum for young people
- Raise the minimum wage for companies over 500 employees
- Increase investments in the CDFI Fund and other relevant programs
- Revise SBA’s Funding Programs to Enable Greater FinTech Participation
- Foster Utilization of the CFPB Special Purpose Credit Program
- Enhance Broadband Deployment

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**KEY STATS**

According to the 2020 U.S. Financial Health Pulse Report, there were significant disparities in financial health by race.

In 2020, only 15% of Black people were considered Financial Healthy compared to 39% of white people.

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According to the 2019 U.S. Financial Health Pulse Report, the income an individual earns is directly related to their financial health score.

Low income is correlated with vulnerabilities in financial health and has long-term implications on wealth creation.

Black people are almost 2x as likely as White people to earn $34,999 or less, and almost 2x as likely as White people to earn below the poverty line.

Financial services can help provide tools to ease income volatility but should rely on nontraditional methods of assessing creditworthiness to account for racial biases.

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