



CENTER FOR INSURANCE
POLICY AND RESEARCH

LIBRARY

Financial Inclusion

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NAIC NATIONAL ASSOCIATION OF
INSURANCE COMMISSIONERS

The NAIC/CIPR Research Library has compiled a summary of recent articles, news coverage, and research on financial inclusion within and relevant to the insurance industry. The Library's Regulator Insights series is aimed at assisting state insurance regulators in quickly understanding the breadth and depth of recent information produced on a key topic of interest across mass media and other sources. We have identified four common types of coverage of financial inclusion over the past 24 months: 1) news coverage; 2) legislative and regulatory activity; 3) NAIC, CIPR and Research Library materials; and 4) research studies.

Financial Inclusion: An Overview

Financial inclusion refers to the idea that all individuals, especially in underserved and marginalized communities, should have access to affordable, relevant, and beneficial financial services. In the context of insurance, financial inclusion aims to enable people from all socioeconomic backgrounds to protect themselves against risks and uncertainties. Easy access to insurance helps individuals, families, and businesses to better safeguard their health, property, and livelihoods, while promoting financial stability and resilience for the individual and broader economic growth across communities.

Multiple factors contribute to the wealth and insurance coverage gaps in the United States, including lack of awareness, affordability, regulatory constraints, infrastructure limitations, and social/cultural barriers. Addressing these challenges requires a multifaceted approach, such as education and awareness campaigns, affordable and tailored insurance products, improved regulatory frameworks, and the leveraging of technology to reach underserved populations. The NAIC is committed to supporting the work of state insurance departments and regulators to optimize the insurance market for all consumers. Financial inclusion is a 2024 regulatory priority for the organization, a key focus of the NAIC's current president, Commissioner Andrew Mais of Connecticut, and a component in multiple ongoing plans and research projects within the NAIC.

News Coverage

News coverage of financial inclusion plays a pivotal role in raising awareness and improving understanding of the importance of accessible financial services for all. This coverage not only informs the public but also influences policymakers, financial institutions, and other stakeholders to take action and create a more inclusive financial system. Recently, news outlets have been driving the conversation on financial inclusion through reporting on national and international programs and legislation aimed at closing financial gaps, as well as growing financial disparities and the risks posed by lack of access and education.

- [“Black Americans Are Embracing a New Era of Financial Inclusion”](#) (The Philadelphia Tribune, July 9, 2024)
 - Financial inclusion emphasizes the importance of equitable access to financial services for all, especially Black Americans, to manage finances, invest, save, and build wealth.
 - Mobile apps, digital banking, fintech, and other technologies are advancing financial inclusion by creating opportunities for historically underserved communities to participate in the financial system.
 - The article notes the significant rise in stock market participation among Black and Hispanic investors, particularly since 2019.
 - To sustain progress in financial inclusion and equity, there must be continued support from political leaders and the implementation of pro-innovation policies and regulations.
- [“Fed’s Barr Warns of Third-Party Risks in Financial Inclusion Efforts”](#) (American Banker, July 9, 2024)
 - Michael Barr, vice chair for supervision at the Federal Reserve, warned that banks may need to hold margin to reduce nonbank counterparty risks.
 - He cited the failure of Long-Term Capital Management in the late 1990s as an instructive lesson in how those risks can imperil banks.
 - The line between banks and fintechs is growing ever blurrier, suggesting that financial services supervisors might need to adjust regulation to fit the kinds of activity an institution is engaged in.
 - Banks should improve how they account for counterparty risks as the hedge fund industry grows and becomes more intertwined with banking.
- [“Inclusion in US Financial Services Is At An All-Time High - and Tech Can Take Us Further”](#) (World Economic Forum, April 11, 2024)
 - Technology is driving inclusion in financial services by facilitating widespread education, accessibility, and affordability that were previously reserved for a wealthy few.
 - The rise of technology and innovations in the financial services industry have created the most accessible, inclusive, and low-cost financial market in US history.
 - Alongside this increased accessibility, there is a need for education. Technology not only provides the opportunity for increased financial education but can also be the solution for delivering that knowledge.

- The article emphasizes that the more financially educated customers are, the more valuable they are to financial service providers.
- [“U.S. Falls in New ‘Financial Inclusion’ Ranking, A Global Measure of Access to Financial Services, Researchers Say”](#) (CNBC, October 3, 2023)
 - The U.S. has fallen to fourth place in a global study of financial inclusion across 42 markets.
 - Consumer sentiment in the U.S. is down across financial systems and employers. This is especially pronounced when it comes to the government.
 - The number of people who feel the government helps them feel financially included declined to 50% in 2023, from 72% in 2022. Political polarization, such as the recent threat of a federal shutdown, is exacerbating the situation.
 - Singapore continues to hold the top spot in the financial inclusion ranking, followed by Hong Kong, Switzerland, the U.S., and Sweden. Singapore’s ranking is boosted by its commitment to financial literacy, financial technology adoption, and employer support.
- [“More Than Half of U.S. High School Students Will Take a Personal Finance Class before Graduation, following the Passage of a New Pennsylvania Law”](#) (CNBC, December 16, 2023)
 - Pennsylvania has become the 25th state to pass legislation guaranteeing that its high school students will take a semester-long course in personal finance before graduation.
 - As a result of this legislation, approximately 53% of high school students in the U.S. will have guaranteed access to a standalone personal finance course.
 - Since 2013, there has been a more than 700% increase in states requiring students to take a personal finance course before graduation.
 - Starting in the fall of 2026, Pennsylvania schools will provide a mandatory course in personal financial literacy for students in the 9th, 10th, 11th, or 12th grades.
- [“IMF Releases the 2023 Financial Access Survey Results”](#) (International Monetary Fund, October 3, 2023)
 - The International Monetary Fund released the results of its fourteenth annual Financial Access Survey (FAS), highlighting the resilience of financial access during the tumultuous years of the COVID-19 pandemic.
 - Data from 2022 indicates a sustained level of financial inclusion, bolstered by the rise in digital financial services. However, there was a concerning dip in the outstanding value of commercial bank loans extended to small and medium enterprises (SMEs) relative to GDP.
 - The means to access finance have seen a seismic shift in recent years. Traditional touchpoints like ATMs and bank branches are witnessing a decline while non-traditional platforms, such as retail agents and mobile money agents, are surging.
 - Despite the rise in bank account uptake globally, there has been a discernible drop in the value of outstanding deposits and loans as a share of GDP across many regions.
- [“Millions of ‘Unbanked’ Americans Lack Adequate Access to Financial Services”](#) (PBS News Hour, December 26, 2022)

- About 4.5% of U.S. households are unbanked, meaning no one in the house has a checking or savings account.
- The rate of unbanked households declined during the pandemic as people opened accounts to receive government stimulus funds.
- However, disparities persist between the banked and unbanked, with Black households being unbanked at more than five times the rate of white ones.
- There is a historical distrust of financial institutions, particularly among Black communities, due to discriminatory practices like redlining.
- ["New JEC Report Finds Barriers to Financial Inclusion Cause Widespread Economic Harm"](#) (Joint Economic Committee, August 22, 2022)
 - The U.S. Congress Joint Economic Committee released a report that finds nearly one in five U.S. adults are either unbanked or underbanked. And a disproportionate share of the 20% that lack access to a bank account or rely on alternative financial services are lower-income earners or people of color.
 - The report, entitled "People of Color and Low-Income Communities Are Disproportionately Harmed by Banking and Financial Exclusion," states that marginalized communities are most likely to face barriers to mainstream banking and financing, which leaves few options to access credit and build wealth.
 - Black and Hispanic Americans are more than twice as likely as white Americans to be unbanked or underbanked, and families at the bottom of the income distribution are more than six times as likely as families at the top to be among the unbanked or underbanked.
 - The report highlights that barriers to full financial inclusion, like banking deserts and predatory lending practices, harm not only the marginalized communities that are directly affected, they also exacerbate racial and wealth inequality that cause economy-wide losses.
- ["Seven Ways to Help Build Generational Wealth for Black Clients"](#) (Journal of Financial Planning, May 2022)
 - This article discusses the racial wealth gap, which is a significant issue for many Black Americans. The average wealth of a White family is 10 times that of a Black family – \$171,000 versus \$17,000.
 - Only 43% percent of Black Americans own their own homes, compared with 72% of white families. Also, white families are twice as likely as Black families to receive an inheritance, and that inheritance is typically three times as much as that left to a Black family.
 - While financial planners can play a crucial role in helping Black families increase generational wealth, the author emphasizes that the responsibility should not rest solely on the shoulders of Black CFP® professionals.
 - Financial planners can encourage Black clients to purchase more life insurance and move beyond policies that only cover burial expenses. The purchase of additional and larger policies could help to pass wealth to future generations.

Legislative & Regulatory Activity

- [US Department of Labor Announces Proposed Rule to Protect Retirement Savers' Interests by Updating Definition of Investment Advice Fiduciary. \(US Department of Labor, October 2023\)](#)
 - The U.S. Department of Labor has proposed a rule to protect retirement savers by updating the definition of an investment advice fiduciary under the Employee Retirement Income Security Act (ERISA).
 - The proposal requires trusted investment advisers to adhere to high standards of care and loyalty while avoiding recommendations that favor their financial interests at the expense of retirement savers.
 - The updated definition would apply when financial services providers give investment advice for a fee to retirement plan participants, individual retirement account owners, and other relevant clients.
 - The rule also aims to ensure that investment professionals compete for business on a level playing field, instead of an unbalanced system that holds advisers to different standards based on their recommended products.
- [Financial Literacy 2023 Legislation \(National Conference of State Legislatures, May 2023\)](#)
 - Forty-one states, Puerto Rico, and the District of Columbia had pending legislation on financial literacy as of May 2023.
 - Legislatures in Florida, Michigan, Nevada, Rhode Island, and Tennessee have officially recognized April as Financial Literacy Month.
 - Idaho established provisions requiring at least one course in financial literacy for grades 9-12 in school districts, specially chartered districts, and public charter schools throughout the state. Financial literacy curriculum must include core competencies defined in the statute.
 - West Virginia will require high school students to complete a one-half credit personal finance course during grades 11 or 12, starting with entering freshmen in the 2024-25 school year.
- [How Many States Require Students to Take a Personal Finance Course Before Graduating from High School \(Next Gen Personal Finance, June 2024\)](#)
 - In June 2024 California became the 26th state to require students complete at least one standalone personal finance course prior to high school graduation.
 - The article lists all previous states that have enacted similar legislation in reverse chronological order, with many entries including links to the legislation.
 - To qualify as a "guarantee state," the "state must guarantee that all students will take a one-semester personal finance course (at least) that cannot be substituted before they graduate from high school."

NAIC, CIPR & Research Library Materials

The NAIC's Center for Insurance Policy and Research has been recently focused on the issue of financial inclusion as it relates to insurance, including hosting a session at the NAIC Spring National Meeting in March 2024 on the topic. The NAIC Research Library is continuously adding new physical and digital materials on a wide array of topics affecting the insurance industry, including various aspects of financial inclusion. Additionally, the NAIC at large has been focusing on this topic via the Special (EX) Committee on Race and Insurance. Activities have included development of a resource guide and endorsement of financial literacy coursework at the high school level.

- ["Only About 1 in 4 Gen Z Adults Can Define 'Deductible' and 'Co-Pay'"](#) (NAIC, July 22, 2024)
 - A new NAIC survey found that around 1 in 4 Gen Z adults could correctly identify the insurance terms "deductible" (27%) and "co-pay" (29%).
 - The survey also revealed that 35% of Gen Z adults currently pay for a cellphone protection plan, while only 21% have renters insurance.
 - More than half of respondents (54%) shared they feel "overwhelmed or anxious" at "the thought of dealing with insurance."
 - Despite the lack of understanding, 61% of Gen Z adults surveyed already pay for their own health insurance and 49% carry automobile coverage.
- *Life Workstream Endorsement of Financial Literacy Courses in High Schools*. NAIC Special (EX) Committee on Race and Insurance. April 25, 2024. <https://content.naic.org/sites/default/files/inline-files/FINAL%20Life%20Workstream%20financial%20literacy%20course%20endorsement.pdf>
 - "Recommends that state insurance departments engage with state financial regulators, state departments of education, and state legislators to promote...stand-alone financial literacy and personal finance coursework as a prerequisite for high school graduation that includes an insurance component."
 - Many children will only receive financial education through their formal education, not at home. This makes it imperative that financial literacy be a part of the curriculum before numerous students enter the workforce upon graduation from high school.
 - Discusses the facets of a comprehensive financial curriculum and the importance of addressing financial literacy through an equity lens.
- *Insurance to Improve Quality of Life: Understanding and Addressing Barriers to the Financial Inclusion of Insurance*. CIPR Event, NAIC Spring National Meeting, March 2024. <https://naic.soutrnglobal.net/Portal/Public/en-US/RecordView/Index/26722>
 - This event considered financial inclusion as it pertains to insurance products and services, leveraging insights from existing data that tracks this information. Presenters further identified barriers to inclusivity in insurance product offerings and started a discussion on what can be done to address these barriers/protection gaps from an industry and regulatory perspective, including lessons learned from other industry contexts. Finally, presenters

highlighted the important role insurers play as investors in the communities in which they operate, as well as the role of education involving financial and insurance literacy to close insurance protection gaps.

- *Testimony of Kathleen A. Birrane Maryland Insurance Commissioner on Behalf of the National Association of Insurance Commissioners before the Committee on Banking, Housing, and Urban Affairs, United States Senate, Regarding Current Issues in Insurance.* September 8, 2022. <https://naic.soutrnglobal.net/Portal/Public/en-US/RecordView/Index/25491>
 - Former Maryland Insurance Commissioner Kathleen Birrane shared during a US Senate hearing the various issues within the insurance industry. This included the NAIC's focus on "addressing barriers that prevent or limit access to the insurance market."
 - This included the Algorithmic Bias Project, the New Avenues to Insurance Careers Foundation, and the Special Committee on Race and Insurance.
- *Financial Resource Wellness Guide.* NAIC Special (EX) Committee on Race and Insurance. October 2022. https://content.naic.org/sites/default/files/inline-files/Financial%20Wellness%20Resource%20Guide_FINAL.pdf
 - A guide outlining "state Diversity, Equity and Inclusion (DEI) initiatives focused on improving the financial literacy of underserved populations within the insurance sector."
 - Includes links to external resources, such as the Council for Economic Education, the American Institute of CPAs, and the Consumer Financial Protection Bureau.
- Rothstein, Richard. (2017). *The Color of Law: A Forgotten History of How Our Government Segregated America.* Liveright Publishing Corporation. <https://naic.soutrnglobal.net/Portal/Public/en-US/RecordView/Index/22071>
 - "Exploding the myth of de facto segregation arising from private prejudice or the unintended consequences of economic forces, Rothstein describes how the American government systematically imposed residential segregation: with undisguised racial zoning; public housing that purposefully segregated previously mixed communities; subsidies for builders to create whites-only suburbs; tax exemptions for institutions that enforced segregation; and support for violent resistance to African Americans in white neighborhoods."
- *NAIC Consumer Resources Hub.* National Association of Insurance Commissioners. <https://content.naic.org/consumer>
 - Provides consumers with a wide array of tools, resources, and information to simplify the process of buying and utilizing insurance products.
 - Includes a glossary of insurance terms, the life insurance policy locator, a company complaint search tool, and comprehensive guides on numerous types of insurance products.

Research

Much of the research being published on financial inclusion investigates access to and affordability of insurance products relevant to an individual's socioeconomic status and/or other demographic details. Also of interest to researchers are the effects of financial literacy and financial education on decision making and risk management.

- "Beyond Access: A Look Into the Drivers of Long-Term Financial Health." Mastercard and Nubank. April 2024. https://www.mastercard.com/news/media/1q0hfryx/mcg-24054-nubank-financial-inclusion-whitepaper_final.pdf
 - Mastercard and Nubank examined the process of financial inclusion in the real world, with a focus on the drivers of long-term financial health.
 - The research found that consistent use of digital payments increases familiarity and trust, which in turn accelerates people's inclusion in the financial system.
 - Making payments with prepaid cards can serve as a first step toward accessing more advanced financial products; 80% of customers who used a prepaid card used it as their first product and 67% of these card users went on to access loan products.
 - The study also found that, regardless of income level, 60% of Nubank customers moved from financial access to usage in 24 months and 40% within 12 months.
- "Understanding Insurance Decisions: A Review of Risk Management Decision Making, Risk Literacy, and Racial/Ethnic Differences." Heckman, S. *NAIC Center for Insurance Policy and Research (CIPR)*. January 2024. <https://doi.org/10.52227/26712.2024>
 - Researchers suggest that viewing risk management and insurance decisions as key components of household financial management is crucial to gaining deeper insights into factors that may grow or reduce the racial wealth gap.
 - The literature review explores three questions: How do consumers make risk management decisions?; What key skills are required to make risk management decisions?; Do these skills vary between racial/ethnic groups?
 - The study found that consumers are prone to errors when making decisions involving risk but that these decision-making skills can be improved. Additionally, the literature suggests that insurance literacy more than financial literacy, along with numeracy skills, are likely critical requirements for making sound insurance choices.
 - Limited literature and data was available to researchers on racial/ethnic differences in risk management and the data that was available was mixed and inconclusive.
- "2023 National Report Card on High School Financial Literacy." Pelletier, J. *Champlain College Center for Financial Literacy*. August 31, 2023. <https://financialliteracy.champlain.edu/report-cards/2023-national-report-card-on-high-school-financial-literacy/>
 - The author completed "detailed reviews of high school graduation requirements, state academic standards for personal finance education, and laws, regulations, and guidelines that relate to how each state delivers personal finance education in its public high schools" to determine each state's grade.

- Additionally, “each state’s policy regarding the teaching of personal finance to students in grades Pre-K to 8” was reviewed.
 - From 2017 to 2023, 12 states improved their grades while two states saw their grades decline. The data suggests that from 2017 to 2028, the number of Grade A states is expected to grow from five to 23 states.
- “Guest Editorial: Financial Inclusion and Social Development for a Sustainable Economic System.” Ali, M., et al. *International Journal of Social Economics*. 50:8, 1017-1021. <https://doi.org/10.1108/IJSE-08-2023-853>
 - The study examines the effects of financial literacy and financial risk tolerance on investor behavior and introduces social stigma as a mediator and emotional intelligence as a moderating factor.
 - Data was collected from 761 financially independent individual investors with a minimum age of 25 years and a minimum of five years of stock market experience, residing in five selected major Indian cities.
 - The findings reveal that financial literacy has a strong impact on investor behavior and social stigma acts as a partial mediator. Emotional intelligence also plays a significant role, with direct and indirect effects between financial literacy, financial risk tolerance, social stigma, and investor behavior.
 - The study suggests that integrating emotional intelligence into government-led financial literacy programs could transform societal perspectives on financial decision-making. Additionally, promoting open societal discussions about finances combats stigma and fosters a supportive space for risk-taking.
- “Financial Literacy and Its Impact on Financial Inclusion: Moderating Role of Gender.” Desai, R., et al. *Journal of Wealth Management*, 25:4, 45-60. <https://doi.org/10.3905/jwm.2023.1.192>
 - This study contributes to the growing domain of financial literacy research by examining its effect on inclusion. The article uses a comprehensive measure which integrates banking services, investment products, and government schemes to gauge financial inclusion.
 - Researchers computed a financial literacy score using objective-based questions focusing on varied financial aspects. They also assessed the moderating effect of gender on the relationship between financial literacy and inclusion. The findings indicate a significant positive effect of financial literacy on all measures of inclusion, but the moderation effect of gender was not statistically significant.
 - Present research findings have important implications for policymakers and industries. For example, service providers can use financial literacy development strategies to expand market share with long-term perspectives.
- “Make the Invisible Underbanked Visible: Who Are the Underbanked?” Chen, Z. and Friedline, T. *Journal of Financial Counseling & Planning*. 33:2, 160-70. <https://doi.org/10.1891/jfcp-2021-0046>
 - Researchers investigated the associations between financial stressors and financial behaviors, focusing on the role of race/ethnicity. The primary purpose of the study was to determine whether race and/or ethnicity moderates the associations between financial stressors and financial behaviors.
 - Household debt in America continues to increase, reaching \$15.24 trillion dollars at the end of Q2 2021.

- Racial and ethnic groups carry their own interpretations, views, and meanings of personal finances, which can influence how they understand and cope with financial stressors.
- “Intersectionality and Financial Inclusion in the United States.” Bogan, V. and Wolfolds, S. *AEA Papers and Proceedings*. 112:43, 43-47. <https://doi.org/10.1257/pandp.20221016>
 - Recent estimates indicate approximately 8.4 million US households are unbanked and an additional 24.2 million US households are classified as underbanked.
 - Researchers focused on intersectionality and the intersection of race and gender to better understand the probability of being unbanked and underbanked in the US. They also examined drivers of this financial exclusion.
 - Findings indicate Black women are significantly more likely than Black men or any other group to be unbanked or underbanked. Additional results illustrate that limited wealth is more frequently cited by Black women as the main reason why they do not engage with the banking system.
- “Addressing Low-Value Insurance Products with Improved Consumer Information: The Case of Ancillary Health Products.” Williams, J. and Dialysis Patient Citizens. *Journal of Insurance Regulation*. 41:9, 1-26. <https://doi.org/10.52227/26275.2022>
 - The current market for ancillary health insurance products, such as short-term health insurance, and supplemental insurance, exemplifies the problem of sellers being favored in the financial services market and low-value insurance products being marketed to consumers.
 - A solution could be for state insurance regulators to mandate a comprehensive system of disclosures and labeling. Authors reviewed comparative disclosure regulations that have been previously implemented in the US and proposals for reforms.
 - The article outlines a possible policy solution for the lack of value in ancillary health insurance products, which focuses on the expansion of consumer information to facilitate shopping for these products.
- “Per Aspera Ad Astra: The Big Challenge of Consumers’ Insurance Literacy.” Cucinelli, D., et al. *International Journal of Consumer Studies*. 45:6, 1357-72. <https://doi.org/10.1111/ijcs.12657>
 - This study on the determinants of customers’ insurance knowledge in the Italian market utilizes an analysis that considers the differences between life and non-life insurance.
 - Researchers’ findings demonstrate that socio-economic factors and financial literacy played key roles in determining the depth of consumers’ insurance knowledge, for both life and non-life insurance.
 - Primary socio-demographic factors determining the level of global insurance knowledge were gender, the number of children under the age of 18, and level of education. Level of education was more impactful on knowledge of life insurance and gender and age were more impactful on knowledge of non-life insurance.

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The NAIC is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S.

For more information, visit [naic.org](https://www.naic.org).

