

The Inclusive Futures Project: On the Front Line of Inclusive Growth in the U.S.

A staggering two billion adults around the globe today still lack basic bank accounts. So it's not surprising that financial inclusion has become a critical theme for the global economy and a top priority for governments, development agencies and private sector partners. Their inclusion efforts combined have to date revolved around providing access to useful and affordable financial products and services.¹

We at Mastercard believe that the private sector can and should play a critical role in helping build a more inclusive economy and, for more than ten years, have helped make the financial system more accessible to nearly 200 million people globally. Our goal is to reach 500 million people previously excluded from financial services by 2020. And our partnerships with the South African Social Services Agency (SASSA) and U.S. Department of Treasury are two shining examples of how we have gone about doing just that, by transforming the disbursement of social benefits to over 10 million people in each of these countries.

The global economy is constantly changing and responding to shifts, leading to new opportunities and challenges. The idea of financial inclusion, for example, has come to mean something very different in developed economies such as the United States and Canada, where the number of unbanked people is proportionally less than in developing countries. For example in the U.S., forces such as the recession of 2008-09 along with shifts in the nature of work moving from traditional to contract jobs over the past few years have negatively impacted the economic inclusion and well-being of many citizens.

We've come to believe that the focus in a developed market must now evolve to immediately address the challenges facing the struggling middle class and the approximately 55 million gig and non-traditional workers in the U.S. Opportunities include helping to build businesses and find financial resilience for workers who juggle multiple jobs, variable paychecks and inconsistent benefits – challenges that don't typically come with full-time employment. We will seek to develop new tools to help all workers navigate the financial marketplace.

Exploring Opportunities in the U.S.

In 2016, Mastercard set out to identify new opportunities and ways to further evolve and expand its inclusion strategy in the U.S. Partnering with Mastercard's Center for Inclusive Growth, we launched "On the Front Lines of Inclusive Growth," a series of community roundtable discussions and panels across seven American cities: Atlanta, Chicago, Columbus, New York, Oakland, St. Louis and Washington, D.C. The dialogue objectives were to hear directly from local communities about the challenges that they face and identify new ways to support economic mobility.

In-depth conversations with local businesses, government and NGO organizations, community leaders and residents addressed many of the familiar challenges faced by communities, including disparities in income, access to quality education, financial services and affordable housing. Dialogues also put a spotlight on several additional trends that are impacting a much broader segment of the American population than the unbanked and underbanked communities, which represent

¹ Worldbank.org, April 2017

approximately 27% of U.S. households and have traditionally been the focus of financial inclusion efforts in North America.

- **The middle class is shrinking while poverty rates, especially in suburban neighborhoods, are increasing.** Middle-tier jobs have declined and poor populations in suburbs grew by 64% between 2000 and 2011, more than twice the rate in cities.
- **Incomes are volatile and many families have little or no savings.** During the 2000s, one in ten Americans experienced a 50% drop in income over the course of one year. In 2015, one in three Americans had no savings at all (Pew Charitable Trust, November 2015) and 46% said they would struggle to pay an unexpected \$400 expense (2016 Federal Reserve).
- **Many struggle to maintain consistent hours and salaries without healthcare, retirement accounts and other benefits that come with traditional full-time employment.** Nearly 35% of working Americans earn at least part of their income from freelance or gig economy work (McKinsey Gig Economy Report, October 2016).
- **Finally, the high cost of living in many cities brings other barriers.** Jobs are often located where many families cannot afford to live and many jobs are hard to reach using public transit systems. In metropolitan areas, the typical resident can only access 30% of jobs in his or her area within 90 minutes on public transportation (The Economist, October 25, 2014).

Additional details on these trends and learnings from our community roundtable discussions can be found in our first inclusive growth report, available at <https://mastercardcenter.org/action/finding-new-solutions-inclusive-growth-u-s/>.

Enabling More Inclusive Communities

With learnings from the roundtable discussions in hand, our roadmap for creating a more inclusive future began to crystalize. Two commercially viable segments surfaced as areas in need of more dedicated focus and research: Struggling Middle Income consumers and Gig Economy workers. The reality is: all too many of these individuals and their families fight to achieve and maintain financial stability; and as such, consistently find themselves excluded, unable to reap the benefits of a growing economy.

In order to gain more insight into the needs, pain points and aspirations of these Middle Income consumers and Gig Economy workers, Mastercard commissioned a targeted ethnographic research study across two U.S. cities during the summer of 2017. Through these conversations, we heard about the struggles, frustrations and hopes of hard-working Americans. And what came through most clearly is that the time-honored notions of success in America – study hard, work hard, save steadily to ensure financial security, a comfortable retirement and better opportunities for your children – felt increasingly elusive and unattainable to many families.

Four overarching learnings emerged from these conversations:

- **There is significant overlap between these two segments.** Struggling Middle Income consumers are turning to the Gig Economy to help make ends meet. But while gig work presents opportunities and advantages, it also comes with some unique challenges, including income volatility, lack of benefits, scheduling challenges and emotional stress.

- **A rise in income volatility hampers consumers' abilities to budget.** One of our interviewees noted that budgeting is essentially impossible as “we can’t account for an income average.” Furthermore, severe spikes and dips in their monthly incomes often forces these consumers to take on debt in order to meet monthly expenses, which then makes their ability to meet their monthly loan or credit card obligations, let alone save, much more precarious. Several interviewees described negotiating with service providers to delay payment of certain bills each month, or asking family members, banks or payday lenders for high interest loans. Pew Survey of American Family Finances (2014) found 92% of households would choose stability over moving up the income ladder – up 7% from 2012.
- **Most people stretch themselves financially in an effort to achieve what they believe a middle class quality of life should feel like.** This includes the occasional meal out with their family or an ongoing cable service subscription - despite the budgetary pressures they feel. And since these Americans typically live sufficiently above the poverty line, they have little to no access to the types of social supports afforded to individuals who live below it.
- **Education has failed to meet the promise of upward mobility.** Many of the people we interviewed are well educated with college and in some cases advanced degrees, but also with debt that overshadows the benefits of their academic credentials. Most are struggling with student loan bills, which represent an oversized share of their budget and which add to their financial insecurity, furthering a sense of helplessness and frustration.

The average American with student loan debt owes \$37,172. There are currently 44 million borrowers that owe a total of \$1.3 trillion (The Economist, June 2014).

Meet Some of Our Interviewees*

Meet Mandy from Columbus, OH:

Mandy is 35 years old and currently lives with her husband and 3 year old daughter. She has Bachelor’s and Master’s degrees that left her with over \$100K in student loan debt. She used to live in New York City and worked in publishing earning \$60K per year, but had to move back to her parents’ house in Columbus in order to reduce expenses and start paying off her loans. She was working remotely but lost her job when the company downsized.

Now, Mandy and her husband cobble together \$50K in income from three different sources. She drives for Uber, which makes her income extremely variable but can also result in some “good nights,” especially when there’s an Ohio State football game at home. Mandy also works three 12-hour night shifts per week in an Amazon packing warehouse, primarily because they offer good healthcare benefits. This job provides the one steady source of income in the household.

Lastly, her husband works as a contractor laying flooring for a friend’s business and also drives for Uber. Mandy feels stressed about their debt and income volatility and panicked about preschool tuition. She feels that no matter how hard they try, they just can’t meaningfully improve their financial situation.

Meet William from Atlanta, GA:

Seven years ago, William left his well-paying job to join a medical equipment start-up. He does not receive a regular salary and has no healthcare, retirement or other benefits. He makes ends meet by

working multiple gigs, including trivia host, limo driver and package delivery driver. He manages his schedule with a paper calendar and his finances by separating money into various envelopes.

Meet Nathaniel from Atlanta, GA:

Nathaniel is 40 years old and shares an apartment with a friend. He is a father to 12-year-old twin boys who live with their mother. He works as an accountant, has benefits and is funding a 401K. He was living comfortably until his sons' mother quit her job and went back to school. As a result, he is now covering more of their expenses, including healthcare.

In order to manage the incremental expenses and help build some savings, Nathaniel drives for Lyft three nights per week. He plans and keeps track of all incoming and outgoing monies in a red notebook, but pays his bills online. He uses jam jars to save his change and then deposits money in a credit union that is over an hour away – a barrier he created purposefully to make it more difficult to later access and spend the money.

The Road Ahead: The Mastercard Inclusive Futures Project

Building on this knowledge, our plan for 2018 is to partner with digital partners and government officials is to develop products and services for gig and on-demand workers through the new Inclusive Futures Project. Mastercard will tap its core strengths to focus on three key areas for 2018: digital solutions to manage finances and speed payments; government services for greater innovation and efficiency; and smart cities for a digitally inclusive future.

As we embark on this latest chapter of our strategy, we encourage and call on our customers and partners to join us in advancing our mission to an inclusive future. And for those who feel equally passionate about and committed to our vision, we invite you to join us in developing a coalition that will focus on identifying and bringing to market solutions that align with the three strategic pillars outlined above. If your company is interested in joining us on this journey, please contact your Mastercard account representative, who can help arrange a more in-depth discussion.

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| <p>*Ethnographic Research Approach:</p> <ul style="list-style-type: none">• 2 U.S. cities: Atlanta, GA and Columbus, OH• Middle class with HHI \$30K - \$60K and feeling limited economic security• Gig economy workers with >10% of their income from or >10 hours/week of 1099-based work• In-home interviews• Interview questions addressed the individual's financial situation, savings, budget management, income flows, debt, credit history, financial literacy, and tools they use or would like to use |
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APPENDIX

There are a number of existing Mastercard products and programs that provide a strong foundation for this strategy. Examples include:

Care.com	Real-time Payments	Mastercard is working with Care.com, the leading online service for finding and managing families care, to make it easier for caregivers on Care.com to manage variable cash flows and personal finances by providing them with real-time payments for services rendered along with budget management tools
U.S. Treasury Department	Direct Express	Has enabled millions of Americans to safely and reliably receive government payments, including social security and veterans' benefits, through Mastercard prepaid cards
Square	Small and local business growth	Mastercard and Square will join forces in New Orleans and Cleveland on educational workshops to provide support to entrepreneurs and small business owners
Walmart, Starbucks, Panera, etc.	Payroll programs	Many large corporations work with Mastercard to enable payroll card programs for un- and underbanked workers to receive their salaries electronically
Uber and Lyft	Payroll services	On-demand drivers benefit from near instant payroll services powered by Mastercard Send APIs
Master Your Card		Now in its 7th year, is a tailored financial literacy and educational program that has touched hundreds of elementary school students across the United States, and is working closely with Labor, Latino, Small Business, Women and African American community organizations on outreach and educational opportunities
Social benefit disbursements		Unemployment insurance, child support, etc., for many states