



Transforming customer wellbeing

What can retail banking do to build financial capability?



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About the Money and Pensions Service

The Money and Pensions Service's vision is "Everyone making the most of their money and pensions."

The new organisation brings together the free services delivered by the Money Advice Service, The Pensions Advisory Service and Pension Wise.

The Arms-Length organisation is sponsored by the Department for Work and Pensions, with a joint commitment to ensuring that people have access and guidance to the information they need to make effective financial decisions over their lifetime. The organisation also engages with HM Treasury, which is responsible for policy on financial capability and debt advice.

Working hand-in-hand with stakeholders throughout the UK, the Money and Pensions Service ensures that money and pensions guidance is available to those that need it, adapting to people's changing needs throughout their lives, offering services and appointments over the telephone, online and in person where appropriate.

Acknowledgements

IFF Research¹ was commissioned in 2018 to undertake primary research to explore the financial capability activity being undertaken by retail banking services firms in their current and savings account offerings, and to build a broad understanding of how it's viewed. The IFF project team was led by Georgina Clarke, Research Director. She was supported by Chris O'Brien, Associate Director, Marc Cranney, Research Manager and, Sarah Howell, Senior Research Executive.

The Money and Pensions Service welcomed the support from Antony Elliott, Founder of the Fairbanking Foundation for his consultation and feedback on the research findings and analysis published in this report. We were also grateful to UK Finance for their sector insights and feedback throughout the project.

IFF and the Money and Pensions Service would like to thank all 19 participating retail banking firms for their time and willingness to discuss their understanding and current practices of financial capability in their current and savings account activities. A full list of participants can be found on page 40.

1 <https://www.iffresearch.com>

Foreword

Just a few months into the life of the newly formed Money and Pensions Service, we are progressing at pace towards delivering a National Strategy for Financial Capability – focused on achieving the vision of a society where everyone makes the most of their money and pensions. Money is a fundamental part of life and is central to people’s health and wellbeing. A population that can manage their money and pensions well is essential – both for the economy and for society.

As chair of the Money and Pensions Service, I believe strongly in this vision. I also believe that the financial services industry – and particularly the retail banking sector – has a critical and central role to play in moving the dials for the UK population. Today:

- 9m people are struggling with problem debt;
- 11.5m do not have even £100 in savings; and
- 17m feel that nothing they do will make a difference to their financial situation.

Further, 24 million people do not feel confident making decisions about financial products and services. I think this situation should cause the financial sector to reflect. It’s telling the sector that almost half of their potential customers associate their product with anxiety. This should be a matter of concern.

While the sector already supports the UK’s financial capability in a variety of ways – through levies that fund the work of the Money and Pensions Service and front-line debt advice providers, corporate social responsibility, employee support, and core products and services for customers – these budgets are siloed within firms. There is no clear view of the total investment being made. Nor the full benefits that this is driving.

Now is the time for the sector to take a much more proactive, holistic approach. Shifting the balance from the cost of remediation to investment in prevention – particularly focusing on financial capability – can achieve much greater outcomes for customers, rebuilding trust in financial services, and creating a more commercially successful and sustainable sector.

This report focuses on retail banking customers. It highlights existing good-practice features of current and savings accounts that could help customers improve their financial capability. There are some great innovations happening – some have incorporated financial capability by design, while others more likely as an unintended benefit.

We want to see much more evidence of financial capability being a mainstream focus in the business. We know firms are increasingly committed to putting the customer first, but more is needed to make this a reality. I believe the industry needs to put the individual’s wellbeing at the centre of corporate purpose and drive a cultural shift for good.

Together, we can make a meaningful difference to the lives of millions of people across the UK. We look forward to harnessing our partnership with the retail banking sector to make this happen.

Sir Hector Sants,
Chair



Executive Summary

In the UK, 24 million adults don't feel confident managing their money. Nine million borrow money to buy food or pay their bills. 10.7 million rarely or never save – and 12.4 million would have to borrow, or could not pay, when faced with an unexpected £300 bill². These are some of the financial capability challenges that the Money and Pensions Service are trying to address, working with many partners from a range of sectors.

The retail banking sector has a major and leading role to play in improving the financial lives of the UK population. The sector is already supporting financial capability in a variety of ways across their business activities, but what is less well known and understood is how it's embedded in their core product and service offerings. We commissioned new research to find out more – this is reported in Section 2.

Financial capability in the UK

“Financial capability is the ability to manage money well – both day-to-day and through significant life events”. Capability comprises more than just skills and knowledge. It also encompasses behaviours, attitudes, motivations, and the degree of connection to the financial system.

The national challenge of improving financial capability is huge and complex. While, for many people, financial difficulties may arise from circumstances outside their control, low financial capability is contributing to millions of people in the UK being without the resilience needed to deal with financial shocks. In addition, financial difficulties such as problem debt can have a profound effect on a person's mental health and wellbeing.

The retail banking sector is uniquely placed – especially during a period of rapid change – to help millions of customers take control of their money, through core retail products and services – and in doing so, help

customers to build their financial capability. Therefore, it's crucial firms understand the full depth and breadth of what makes somebody financially capable and how they can support it for their customers.

Further, the financial capability agenda is complementary to the sector's focus on customer vulnerability and financial inclusion. For example, low financial capability can have both a direct and indirect impact on how vulnerable a consumer may be. We believe that these inter-connected agendas need to be tackled together.

There is a huge opportunity to achieve a step change improvement in supporting the financial wellbeing of tens of millions of customers, while at the same time rebuilding trust and confidence in the financial system.

How retail banking supports financial capability

In October 2018, IFF Research were commissioned to explore how retail banking firms (referred to in this report as 'providers'), offering current and savings accounts, are trying to help customers improve their financial capability through their products and services, and how it's understood and governed across the sector. IFF Research carried out desk research on 19 participating providers, followed by face-to-face and telephone interviews with 42 respondents.

How providers define and understand financial capability

Interviewees broadly recognised the concept of financial capability and collectively described much of what is relevant. However, understanding was inconsistent between firms and typically high-level. Providers tended to refer to certain aspects of financial capability, such as financial knowledge and skills, and also where there is overlap to complementary agendas, such as financial inclusion and vulnerability.

Certain key aspects of financial capability were not typically noted by interviewees, particularly in relation to planning ahead for the future or customer attitudes around day-to-day spending, saving and borrowing.

Providers' approach to embedding financial capability

Providers say that their features are ultimately driven by their focus on putting customers at the centre of their business, rather than with a specific aim of improving financial capability. We found no examples of providers explicitly considering financial capability as part of business cases for developing new products and services, nor of providers seeking to determine the potential commercial value of improving customers' financial capability.

However, providers do recognise that improving financial capability can lead to longer-term commercial benefit, such as through enhancing customer value and retention.

Providers do not systematically evaluate the impact that their products and services have on customers' financial capability, nor are individual teams or roles typically made accountable for this.

Products and services with the potential to improve financial capability

From the research we shortlisted 13 products, services and features (collectively known as 'features') aligned to financial capability – broadly designed to support budgeting and savings behaviours. These features are clustered around the everyday money management skills of 'keeping track' and 'active saving', there are fewer features aligned to planning further ahead for expected and unexpected life events. Some of these features are reasonably well established like 'goal-setters' to encourage customers to save for certain goals. Two of the more novel features we found are utility bill switching (automatically finding cheaper deals and easy switching) and building a credit score while regularly saving.

Our research shows that some progress is being made, but there is a significant opportunity to do more to help improve customers' financial capability. In addition to implementing versions of the features highlighted in this report, providers need a greater and more consistent understanding of:

- the financial capability of their customers;
- how to develop features to improve this;
- how to measure and track the impact of these features on customers' financial capability and wellbeing; and
- the benefits to the business of improving customers' financial capability.

Recommendations to achieve a step change

Improving financial capability is a major and complex national challenge. It requires a wide range of organisations from different sectors to work together – and individually – to achieve a step change improvement. The retail banking sector is a critical partner in addressing this challenge.

The closing section of the report sets out our recommendations for the sector to consider and implement to address the UK's financial capability challenges.

1. Improving customers' financial capability should be a strategic goal for the sector

1.1 Formally consider the benefits of improving customers' financial capability and wellbeing as part of building the business case for new products, services and features.

1.2 Work with the Money and Pensions Service to build the evidence of the causal links between improving financial capability (and wellbeing) and achieving longer-term commercial value.

2. Financial capability should be integral to product and service design and evaluation

Understanding customers' financial capability needs

2.1 Apply the Money and Pensions Service's financial resilience model to your customer base to better understand the financial capability and wellbeing needs of your customers.

2.2 Incorporate the Money and Pensions Service's standard measures of financial capability and wellbeing into market and product research activities.

Providing effective solutions for customers

2.3 Embed financial capability outcomes into design and development processes, integrated with approaches to customer experience and behavioural science.

2.4 Consider implementing and evaluating features highlighted within this report.

2.5 Consider taking forward ideas and approaches from the Financial Capability Lab.

Measuring impact and sharing learning

2.6 Engage the Money and Pensions Service to understand how to make use of the Financial Capability Evaluation Toolkit and Evidence Hub.

2.7 Embed financial capability impact evaluation into core product testing approaches.

2.8 Share learning of what solutions do, and do not work to help customers improve their financial capability and wellbeing.

3. The sector should work together to drive a cultural shift around money in society

3.1 Use data to observe customer behaviour around money and make recommendations to them to help them be more in control and reduce their anxiety.

3.2 Work with us to explore collaborative campaign opportunities to encourage more people to talk about money.

We want to drive significant, sustained change over the longer-term. We believe, together, we can have meaningful impact to achieve a step change in customers' financial capability and wellbeing.

Introduction

The retail banking sector has a leading role to play in improving the financial lives of the UK population. Creating a more financially inclusive system – ensuring people have access to products and services that meet their needs – is a vitally important component. As is ensuring that customers are properly supported and compensated when things go wrong. But this is not enough. There is much more that can be done to shift the balance from remediation to prevention – helping millions of customers to become financially capable.

There is a great need and opportunity for firms to find new ways of helping their customers become better able to manage their money well. Customers need solutions that educate and empower them to make more informed decisions, while also nudging and encouraging them towards a better outcome. Achieving this is a win-win. Financial capability is good for long-term business, good for society and good for the economy.

As the statutory body for driving the national challenge of improving financial capability, the Money and Pensions Service is here to provide leadership and support on this issue by:

- building a common understanding of the problem – including how it relates to other challenges, such as mental ill-health and vulnerability;
- collaborating with partners to develop and implement effective solutions at scale; and
- supporting a community aligned around a shared goal of improving the UK's financial capability.

This report is a stepping stone in developing our National Strategy which – when published in the Autumn – will set out how we will do this.

The report highlights the pressing financial capability challenges in the UK and the need for collective action. It seeks to share how retail banking firms – focusing on current and savings account providers – are currently trying to help customers improve their financial capability and wellbeing through mainstream products and services. For example, this could be by making it easier for people to build savings, better manage their spending or use of credit, or helping customers shop around for the best product for their needs. It shines a spotlight on some of the more recent innovations that have come to market, such as spend analytics, 'round to the nearest pound' saving, and gambling blocks.

It also sets out what more we believe needs to be done to really shift the dials at a national scale, for example, retail banking firms:

- understanding the financial capability needs of their customers;
- designing products and services that effectively address these needs;
- robustly evaluating and measuring the impact on their customers' financial wellbeing; and
- continually learning, collaborating and improving as a community to drive a culture-shift, ensuring sustained positive change.

This report is structured as follows:

- Section 1 introduces the financial capability challenge in the UK today and the sector's response in a changing environment.
- Section 2 highlights retail banking firms' understanding of financial capability; their approach to embedding it in the business; and the existing products, features and services with the potential to improve customers' financial capability.
- Section 3 sets out recommendations for the sector and ways we can work together to achieve a major step change improvement for customers.
- The annexes contain further information on our model of financial capability and research methodology and process.

We want this report to start a bigger conversation about how we work together to make retail banking services work better for customers. Helping millions of people transform their financial lives.

1. Financial capability in the UK



Financial capability is recognised as contributing to financial stability, financial inclusion, and to the effective functioning of financial markets³. It’s also a key aspect of consumer vulnerability⁴. It’s therefore crucial that banks understand it and how they can support it for their customers.

People who are financially capable are more able to make sound financial decisions for themselves and for their families; to make informed choices between different financial products and services; to budget and to plan ahead financially; to build savings; to avoid becoming over-indebted; to identify, and protect themselves against, financial risks (for example, through insurance); to invest prudently (if they have sufficient resources to be able to do so); and to understand their rights and responsibilities⁵.

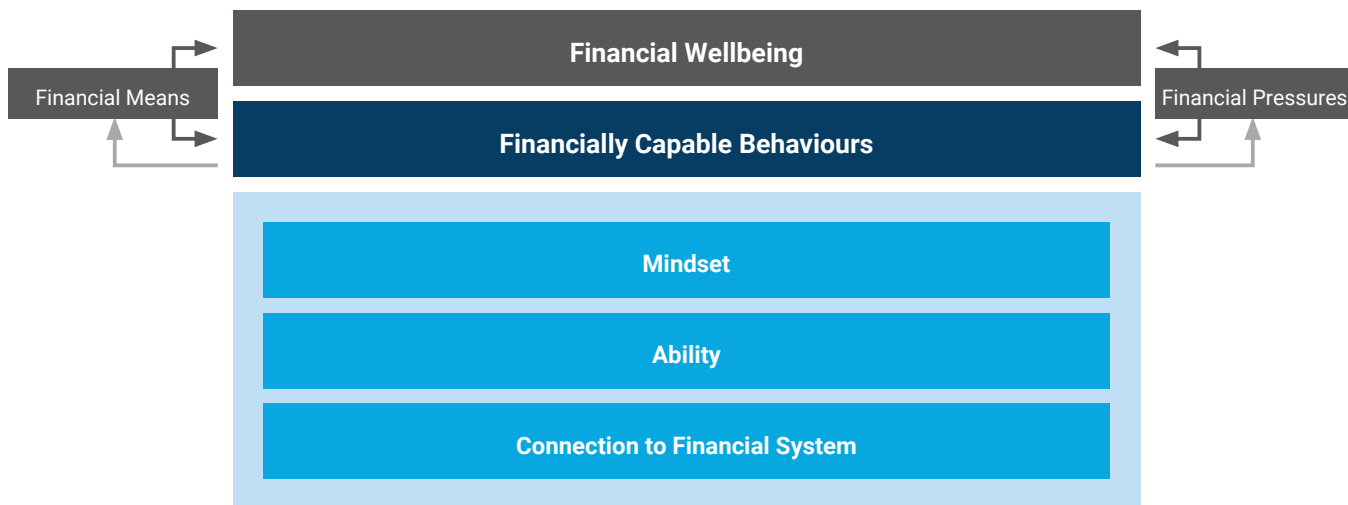
Firms should understand the full depth and breadth of what makes someone financially capable. Enabling the design of products and services that more effectively improve customers’ financial capability – helping them to achieve better financial outcomes for themselves, and contributing to a more stable, inclusive and well-functioning retail banking market.

1.1 What is financial capability?

“Financial capability is the ability to manage money well – both day-to-day and through significant life events.”⁶

Capability comprises more than just skills and knowledge. It also encompasses behaviours, attitudes, motivations, and the degree of connection to the financial system.

Financial capability is a key driver of a person’s financial health and wellbeing⁷ – enhancing their ability to meet current commitments and resilience to cope with future financial shocks.



3 World Bank, <http://responsiblefinance.worldbank.org/~media/GIAWB/FL/Documents/Publications/Why-financial-capability-is-important.pdf>
 4 FCA, Approach to Consumers, <https://www.fca.org.uk/publication/corporate/approach-to-consumers.pdf>
 5 CfBT Education Trust, Financial capability: Why is it important and how can it be improved, Perspective Report, <https://www.educationdevelopmenttrust.com/our-research-and-insights/research/financial-capability-why-is-it-important-and-how-c>
 6 <https://www.fincap.org.uk/en/articles/what-is-financial-capability>
 7 2018 Adult Financial Capability Survey, <https://masassets.blob.core.windows.net/fincap-cms/files/000/000/386/original/UK-financial-capability-levels-UK-poverty-statistics-research.pdf>

1.2 Financial capability, vulnerability and financial inclusion

The financial capability agenda is complementary to the sector's focus on customer vulnerability. We support the FCA's definition of vulnerability, which acknowledges capability and resilience as two of the four drivers of vulnerability, alongside health and life events⁸.

Low financial capability can have both a direct and indirect impact on how vulnerable a consumer may be. Directly, as it can limit their ability to manage their money, plan ahead and make financial decisions that are right for them. And indirectly, as it can cause the person to be less resilient to financial shocks – in some cases contributing to mental or physical health difficulties. For customers who become vulnerable

due to a change in circumstance, having low financial capability can make it even more difficult to get back on track.

Financial capability is also complementary to the financial inclusion agenda, which is focused on ensuring that consumers “have access to useful and affordable financial products and services that meet their needs”⁹. Consumers need access to products and services to be able to effectively manage their money, and so be financially capable. And in reverse, a more financially capable consumer is typically better able to make use of the products and services that are right for them.

1.3 A national challenge

Financial capability is a hugely important issue in the UK:

- 12.4m people would not be able to pay (or would borrow) when faced with an unexpected £300 bill.
- 9m people are experiencing problems with debt, with only 1 in 3 seeking help.
- 24m adults do not feel confident managing their money¹⁰.

While for many people financial difficulties may arise from circumstances outside their control, low financial capability is contributing to millions of people in the UK being without the resilience needed to deal with financial shocks. In addition, problem debt can have a profound effect on a person's mental health and wellbeing. The Money and Mental Health Policy

Institute report that nearly half (46%) of all people in problem debt are also experiencing a mental health problem, and that people with mental health problems are 3.5 times more likely to be in problem debt than those without mental health problems¹¹.

But financial capability isn't just about helping customers experiencing a crisis, or navigating particularly vulnerable circumstances. It relates to the whole population and their ability to manage their everyday money, and their ability to prepare for the unexpected.

To help us better understand the national financial capability challenge, we have measured it through our Adult Financial Capability Survey¹² of nearly 6,000 adults in the UK. We have identified key components of financial capability and the inter-relationships between

8 FCA, Approach to Consumers, <https://www.fca.org.uk/publication/corporate/approach-to-consumers.pdf>

9 World Bank, <http://www.worldbank.org/en/topic/financialinclusion>

10 2018 Adult Financial Capability Survey, https://masassets.blob.core.windows.net/cms/files/000/001/148/original/Adult_Financial_Capability_Survey.pdf and Over-Indebtedness Model – CACI, 2019

11 Money and Mental Health Policy Institute, Debt and Mental Health, Policy Note Number 15, <https://www.moneyandmentalhealth.org/wp-content/uploads/2019/03/debt-and-mental-health-policy-note.pdf>

12 2018 Adult Financial Capability Survey, https://masassets.blob.core.windows.net/cms/files/000/001/148/original/Adult_Financial_Capability_Survey.pdf

them. This enabled us to develop a robust model – the Building Blocks of Financial Capability. These are explained in more detail in Annex 1.

The Building Blocks tell us what is most likely to be important to people’s financial wellbeing, and therefore what we want to help consumers:

- keep track of spending and account balances;
- actively save;
- avoid borrowing for everyday spending;
- plan ahead for the expected and unexpected; and
- build confidence through knowledge and experience.

The survey findings also allows us to segment the UK population according to their financial resilience. This allows us to understand the levels of financial capability across the UK adult population. Further details can be found in our *Market Segmentation Report*¹³. The segmentation is comprised of three broad macro-segments¹⁴ (see below).

Understanding the real needs of customers, and how these can differ based on their level of resilience, is a vitally important part of designing products and services that can meaningfully help customers become more financially capable.



Struggling

Consisting of almost 20% of adults, many of whom are over-indebted. They struggle to keep up with bills and payments and to build any form of savings buffer, often due to very low household incomes. This means that even relatively small income shocks can have a major impact. Although some within this segment are financially savvy and can manage their limited budgets well, they are the least financially resilient overall.



Squeezed

Consisting of around 25% of adults, they are predominately working-age consumers, with significant financial commitments but relatively little provision for coping with income shocks and over-dependent on easily accessed credit. Many have children and busy lives, and do not proactively engage with their financial situation unless it’s at crisis point.



Cushioned

Consisting of around 55% of adults, they are the most financially resilient group with the highest levels of income and savings. Although financial commitments are generally higher, a higher savings buffer helps reduce the impact of income shocks.

13 Market Segmentation, An overview 2016, https://masassets.blob.core.windows.net/cms/files/000/000/568/original/Market_Segmentation_report_An_overview.PDF

14 Market segmentation infographic, https://masassets.blob.core.windows.net/cms/files/000/001/137/original/Market_Segmentation_Segment_Infographics.pdf

1.4 A sector's response in a changing environment

Financial services – and particularly retail banking – is in a period of rapid change. We continue to see rising levels of innovation and competition, fuelled by technological progress and a thriving fintech sector, an evolving regulatory landscape and increasingly higher customer expectations for products and services, tailored to their needs.

Firms are investing heavily in their brands and in rebuilding public trust following an incredibly challenging and costly decade. PPI alone has so far cost the sector more than £34 billion¹⁵. There is increasing recognition of the need and opportunity now to shift the balance from remediation to prevention – to become a more socially responsible and commercially sustainable sector.

Yet, even now the sector continues to benefit significantly from some practices detrimental to parts of society, particularly to those with low financial capability. For example, the FCA estimates that in 2017 firms made over £2.4 billion in revenue from overdrafts, with around 30% coming from unarranged overdraft fees and charges. Further, more than 50% of firms' unarranged overdraft fees came from just 1.5% of customers in 2016. People living in deprived areas are more likely to be impacted by these fees and in some cases unarranged overdraft fees can be more than ten times as high as fees for payday loans. The FCA has set out proposals to radically reform the way banks and building societies charge for overdrafts, such as simpler and fairer pricing. Therefore, helping to reduce the harm they see to consumers – particularly to vulnerable consumers – from the disproportionate burden of high charges and repeat use of overdrafts¹⁶.

This evolving landscape, together with active regulation provides an opportunity for the sector to lead the way in doing the right thing for the customer – demonstrating to the regulators a genuine commitment to taking a proactive approach to helping customers. The FCA's Duty of Care Consultation feedback highlighted that "...real change to consumer outcomes can only come from fundamental cultural change within firms – of a kind that cannot be driven by external force, such as regulatory intervention or a legislative duty. [but] come from firms themselves..."¹⁷.

There is now evidence that alternative business models are beginning to emerge, taking a very different approach, and one of their key differentiators is that they seek to realise value by understanding customers' data¹⁸. Further, the *2017 Fairbanking Foundation Ratings Report* notes: "We may be close to a tipping point: banking institutions are increasingly aware of their social responsibilities – and are finally starting to put their aspirations into practice."

Firms are uniquely placed to help millions of customers take control of their money, through core retail products and services – and in doing so, help customers to build their financial confidence and resilience. This proactive, customer outcomes-focused approach can help strengthen trust and engagement. Research shows that consumer trust in financial services is steadily rising and is on a par with the retail sector¹⁹. But there is still a way to go. The sector must strive to do even more to convince consumers that they understand and truly care about their needs; having the customers' best interests at heart.

15 FCA, at March 2019, <https://www.fca.org.uk/data/monthly-ppi-refunds-and-compensation>

16 FCA, High-Cost Credit Review: Overdrafts consultation paper and policy statement, <https://www.fca.org.uk/publication/consultation/cp18-42.pdf>

17 FCA, A duty of care and potential alternative approaches, <https://fca.org.uk/publication/feedback/fs19-02.pdf>

18 FCA, Strategic Review of retail banking business models - Final report, <https://www.fca.org.uk/publication/multi-firm-reviews/strategic-review-retail-banking-business-models-final-report.pdf>

19 Accenture – UK Financial Services Customer Survey 2018, https://www.accenture.com/_acnmedia/PDF-78/Accenture-2018-UK-Financial-Services-Customer-Survey.pdf#zoom=50 and Edelman Trust Barometer, <https://www.edelman.co.uk/magazine/posts/edelman-trust-barometer-2019-uk-launch/>

2. How retail banking supports financial capability



Retail banking firms support financial capability in a range of important ways. Through the levies that fund the Money and Pensions Service – with a majority going directly to front-line customer delivery. Through corporate social responsibility funding and volunteering initiatives supporting financial education in the community. And – to an increasing extent – directly to customers through products, services and features. It’s on this latter role that our research is focused.

The insights following this section are based on desk research and interviews with 19 retail banking firms, comprising major and mid-tier banks/building societies, challenger banks/fintechs and one credit union. The research focuses on mainstream current and savings account products and services. It doesn’t cover other consumer financial services products such as mortgages, loans and credit cards. The group of participating firms are collectively termed ‘providers’ from this point. See Annex 2 for more information.

The findings are structured as follows:

- how providers define and understand financial capability;
- how providers are embedding financial capability in their approaches to customer proposition development, and how commercial drivers are used to build the case for it; and
- current examples of products, services and features in current and savings account offerings that have the potential to support financial capability.

The Money and Pensions Service’s conclusions and reflections on the research findings are highlighted at the end of this section.

2.1 How providers define and understand financial capability

Summary

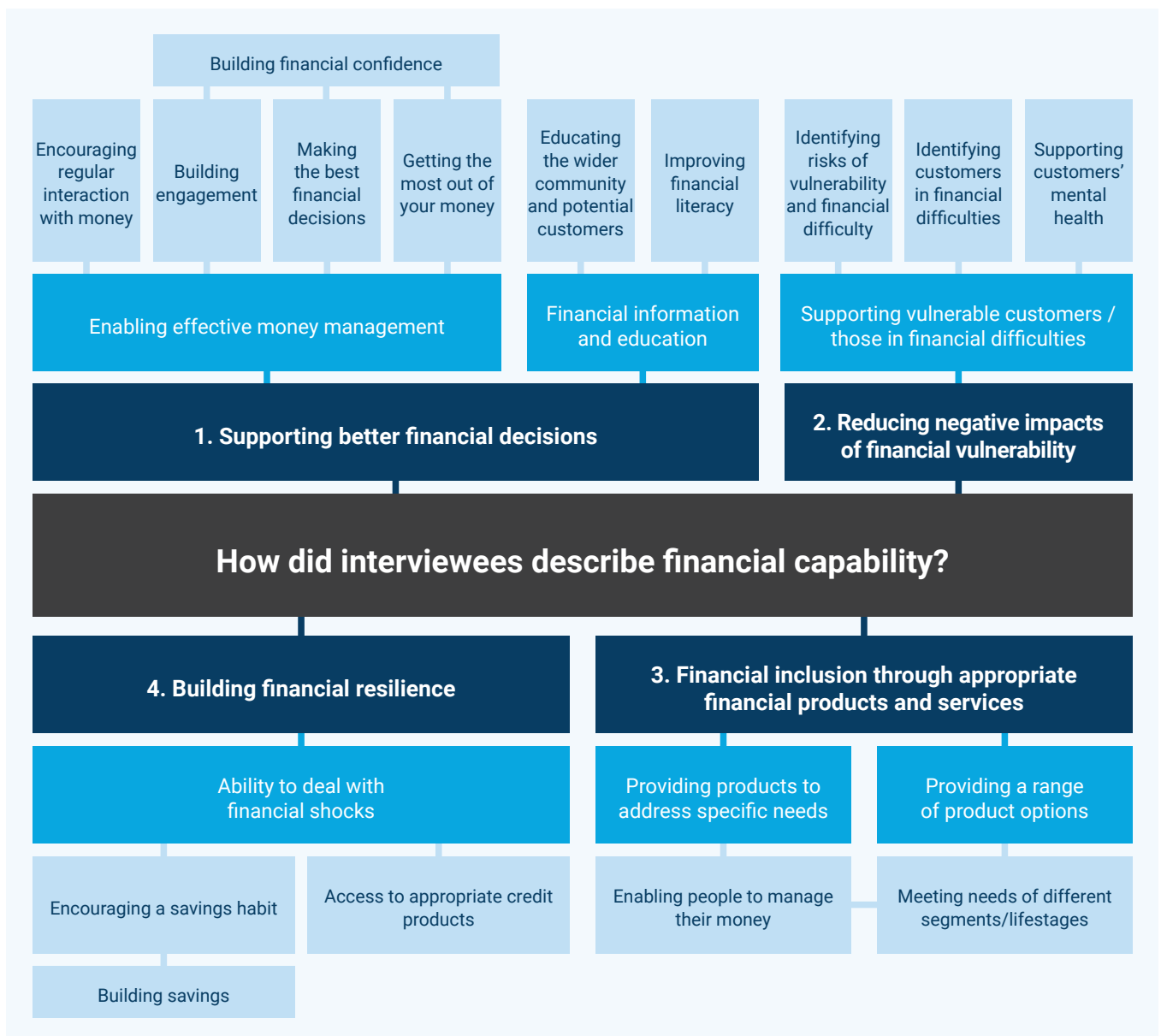
- Interviewees broadly recognised the concept of financial capability and collectively described much of what is relevant. However, understanding was inconsistent and typically high-level.
- Providers tend to focus on certain aspects of financial capability, such as financial knowledge and skills, and also where there is overlap to complementary agendas, such as financial inclusion and vulnerability.
- Certain key aspects of financial capability were not typically noted by interviewees, particularly in relation to planning ahead for the future or customer attitudes around day-to-day spending, saving and borrowing.

We asked 42 interviewees from 19 providers how their firms define and understand financial capability (without first being reminded of the formal definition). From their responses we found that financial capability is not a commonly used term across providers. They broadly recognise the concept of financial capability but don’t articulate it in a consistent way.

“In terms of personal interpretation there’s financial literacy, the ability to understand and manage products and there are other aspects if people are having financial difficulties as well. You can interpret it in different ways. I don’t think it’s [Financial Capability] a principal term that we would use.”
Major Bank/Building Society

The diagram below shows the combination of interviewees' views of what financial capability means. None covered the full scope of financial capability (see page 10) and descriptions were mostly high-level. We have summarised their responses under four themes:

1. Supporting better **financial decisions** through information and tools.
2. Reducing negative impacts of **financial vulnerability**.
3. **Financial inclusion** through appropriate financial products and services.
4. Building **financial resilience**.



The majority of interviewees – although not all – rightly described financial capability as helping customers to make **better financial decisions**, and saw their role as supporting customers' financial knowledge and skills by providing the necessary information, tools and financial education. Some providers also talked about building financial confidence, which evidence²⁰ shows is a particularly important aspect of financial capability.

Several providers explained their responsibility to identify vulnerable customers and **reduce the negative impacts of financial vulnerability** by providing targeted support. It's indeed important for firms to address issues of vulnerability when they occur. However, as described in Section 1 of this report, providers should also adopt an approach of proactively supporting customers' financial capability – and resilience – as a way of reducing the risk of customers becoming financially vulnerable in the first place.

Some providers talked about supporting **financial inclusion** – providing access to relevant products and services. Financial inclusion is necessary for financial capability. **A financially excluded consumer – who may otherwise have the necessary knowledge, skills and attitudes – is by circumstance less able to use their money in the most effective way, and so become less financially capable.**

Many providers strongly, and accurately, associated **financial resilience** with financial capability – explaining that building sufficient savings, having access to, and appropriately using suitable credit products mean that customers are more able to deal with unexpected circumstances.

As we can see, much of what interviewees discussed was relevant to financial capability. However, it's notable that none covered all four of the above aspects, showing the level of variation in understanding and views. Further, these four aspects also don't cover the full breadth and depth of financial capability. Some of the most important aspects of financial capability were not explicitly noted, including those related to working towards goals and planning ahead for the future, and customers' attitudes towards day-to-day spending, saving and borrowing (see diagram in Annex 1 for more information).

2.2 Providers' approach to embedding financial capability

Summary

- Providers say that their features are ultimately driven by their focus on putting customers at the centre of their business, rather than with a specific aim of improving financial capability.
- We found no examples of providers explicitly considering financial capability as part of business cases for developing new products and services, nor of providers seeking to determine the potential commercial value of improving customers' financial capability.
- Although, providers do recognise at a high-level that improving financial capability can lead to longer-term commercial benefit, such as through enhancing customer value and retention.
- Providers don't systematically evaluate the impact that their products and services have on customers' financial capability, nor are individual teams or roles typically made accountable for this.

2.2.1 Exploring the business case for financial capability

Providers generally believe increasing financial capability underlies everything they do, which they told us is to improve the financial lives of their customers. Enhancing financial capability is often seen as being fundamentally linked to the overarching ethos that underpins their business proposition, rather than as a specific agenda or focus. This lack of focus is further obscured by inconsistent understanding of what financial capability means and how it relates to other agendas – particularly financial inclusion and customer vulnerability. Therefore, it's typically not considered to be a specific driver for developing particular products or services.

We didn't find any examples of financial capability being explicitly built into business case processes, even in cases where providers have a fuller understanding of the scope and importance of financial capability. None of the providers had sought to define and quantify the commercial benefits for improving customers' financial capability – although these were described by interviewees at a high-level (see adjacent page).

"I don't think we would describe any specific features as financial capability features. I don't think when we are making decisions about a product we would say that it's good for financial capability, I think we would just say that it's generally good for customers."

Mid-tier Bank/Building Society

"We have a commitment around simplicity of products. These simple products show a soft tie in financial capability. However, I wouldn't say it's a mantra that we are always looking to. I don't think we have a multi-million-pound financial capability policy, and lots of signature initiatives. But I think that instilling financial education, understanding and capability is within everything we do. We try and make everything very simple and easy for customers so that they are able to make decisions about their money."

Challenger Bank/FinTech

"We might not think of that in terms of financial capability per se, but we will think about how we conduct ourselves as an organisation to make sure that the customer gets a fair value exchange. The products we offer should be sufficiently transparent and easy enough to use that they take care of financial capability. [For me,] financial capability is a subset of what we should be doing every single day, which is helping customers make the most out of their money."

Major Bank/Building Society

2.2.2 Financial capability and commercial benefits

Providers see financial capability and commercial value as being generally aligned, although indirectly. They believe enhancing financial capability of their customers could lead to the following business outcomes:

Customer retention: Customers may be more likely to continue to use them if they can manage their money well. Therefore, they see supporting financial capability as one way to establish trust and long-term relationships with their customers.

Customer acquisition: Expanding the product proposition, such as innovative tools and services to help people manage their money better, could grow their customer bases which will have a direct commercial impact.

Customer value: If a customer can manage their money well, they may be more likely to be able to use a wider range of financial products (such as mortgages or other loans) which have a higher commercial return for the organisation and have increased deposits in their accounts.

External reputation: Building external reputation, by being seen to be helping customers improve their own financial capability, could help providers to stand out from their competitors to grow their customer base.

"For example, the reason why you'd have a savings product is to encourage customers to build a habit of saving that is good for them and their families to prevent them from getting in debt in the future; but it also helps us to develop retail balances [savings deposits available for lending to generate revenue]. So, it's literally a win-win situation."

Mid-tier Bank/Building Society

"There is certainly a cost [saving] element to it helping the financial capability of our customers. It saves us money. We don't have to have as many people in the financial difficulty team, or in collections, which means we avoid having to make as many telephone calls and having much more difficult conversations."

Mid-tier Bank/Building Society

2.2.3 Ownership and measurement of financial capability

Across providers we found only a few specific roles with responsibility for improving customers' financial capability. We didn't find any overall teams with this responsibility. Rather, it's typically seen as being part of the company culture. Given the lack of clear accountability, it's perhaps unsurprising that providers do not systematically evaluate how effectively their products and services improve customers' financial capability.

"Partly because of our scale...we don't have a specific team for this. We don't have a team of 10 people that deal with financial inclusion, and their 10 KPIs that we measure this against. We don't do that."
Challenger Bank/FinTech

Of those providers that have started to consider measuring the outcomes of their features on customers' financial capability, there is recognition that the measurement of financial capability is a complex area. This is an area where we believe the Money and Pensions Service can support, which is discussed further in Section 3.

"In terms of measuring impacts, what we've learned is that you really have to think quite broad. It's not like impacts are going to be immediate and it's something that you have to monitor over a period of time. And you have to look across a broad range of indicators like: are customers going into overdrafts less? Are we seeing fewer times when a customer is unable to pay their bills? Are we seeing that their savings balances are growing? Are we seeing that, actually, they are contacting us less? Are they complaining about us less? Are they using mobile banking more and are they using it more actively?"
Major Bank/Building Society

2.3 Products and services with the potential to improve financial capability

Summary

- Research findings highlight a range of features in current and savings accounts that align to financial capability, and are broadly designed to support budgeting and saving behaviours.
- We report on 13 features, including savings goal-setters (to encourage saving), automated saving (making regular saving a default habit), and balance after bills (shows available spending after bills).
- Two of the more novel features we found are utility bill switching (automatically finding cheaper deals and easy switching) and building a credit score while regularly saving.

Nearly all UK adults (96%) have a current account, and 72% have a savings account²¹. These are two of the main products that customers use to manage their money day to day, and present a major opportunity for promoting and supporting customer financial capability.

Progress has been made in providing core products and services that are aligned to improving customers' financial capability and their financial wellbeing. For example, the Fairbanking Foundation rates core UK banking products by the extent to which they help improve the customer's financial wellbeing. In 2010,

21 Figures 4.1, 4.3 and 4.11 in FCA. 2018. The Financial lives of consumers across the UK: key findings from the FCA's Financial Lives Survey 2017. <https://www.fca.org.uk/publication/research/financial-lives-consumers-across-uk.pdf>

it identified just two savings products and six current accounts to receive its star rating award – in 2017, this rose to 16 savings accounts and 16 current accounts²², highlighting how the retail banking culture was evolving to consider their social as well as commercial purpose.

We wanted to better understand retail banking's activities. So, through our research, we asked respondents about which of their specific products, features and services might support financial capability. Most providers tend to use these terms interchangeably. For example, an app is described by some as a 'product', and others as a 'feature' of a provider's proposition. Due to this and for ease of reporting, 'products, features and services' are described as 'features' in this report.

As part of the research, we used our Building Blocks of Financial Capability framework to see where features are aligned to components of financial capability (see Annex 1 for more information).

Our research findings show that several features in current and savings accounts align to improving financial capability and are broadly designed to support budgeting and saving behaviours. The financial capability features we found can be organised into four themes, helping people to:

1. build savings and improve financial resilience;
2. keep track of their payments and bank balance;
3. shop around for a better deal; and
4. restrict or limit spending.

Throughout this chapter we showcase a range of interesting and varied examples from across the sector. While, in many cases, impact analysis isn't yet available on the examples shared, their inclusion is primarily intended to show alignment to financial capability, across a range of providers.

Products and services	Build savings and financial resilience	Round-up saving	P22
		Savings goal-setters	P22
		Workplace savings from payroll	P23
		Automated saving	P24
		Saving regularly to build credit rating	P25
	Keep track of payments/ bank balances	Balance after bills	P26
		Spending analysis	P27
		Viewing all accounts in one place	P28
		Text/App alerts	P28
		Incentivising direct debits	P29
	Shop around	Utility bill switching	P29
	Restrict or limit spending	Gambling blocks	P30
		Cash withdrawal limits	P31

22 Figures 7, 12 and 23 in 2017. Antony Elliott and Sureena Santos. The Fairbanking Foundation. Fairbanking Ratings Report: A Tipping Point in UK Banking Culture?. <http://fairbanking.org.uk/wp-content/uploads/2017/04/Fairbanking-Report-2016-050417-On-line-version.pdf>

2.3.1 Features to help people build savings and improve financial resilience

Regularly saving for expected and unexpected expenses helps to build financial resilience. Research shows that saving is one of the biggest predictors of financial wellbeing²³. We want to promote a savings culture and help people to integrate saving into their day-to-day money management and their longer-term goals, such as buying a home.

We found five notable features that are intended to encourage a savings habit, by making saving easier or more likely, such as by making saving a default behaviour. Previous research showed that when low-income borrowers opted in to making savings payments alongside a loan repayment, many continued to save after the loan was repaid because the regular saving payment did not automatically stop²⁴.

The features we identified to encourage regular saving include:

- a. **Round-up saving** – rounding up card transactions to an amount and then saving the difference
- b. **Savings goal-setters** – enabling savings goals to be set within an account
- c. **Workplace savings from payroll** – moving money straight from salary into savings
- d. **Automated saving** – automatically moving extra money from a current account into a savings account
- e. **Saving regularly to build credit rating**

a) Round-up saving

Round-up saving is the digital equivalent of taking the loose change after buying something with cash and putting it into a savings pot. Customers can round-up certain transactions to a higher value, typically to the nearest whole pound, with the difference going into a savings account or savings pot.

Lloyds Bank, Monzo, Starling²⁵ and Tandem²⁶ round to the nearest pound.

This enables customers to save small amounts regularly and automatically as a default. The regular small amounts are intended to avoid the shock of suddenly having less money to spend.

Round-up saving: Lloyds Bank – Save the change

Lloyds Bank current account holders have the option to activate the 'Save the change' function. This means that whenever an item is bought on a Lloyds Bank debit card, the bank rounds the transaction up to the nearest pound and deposits the difference into a nominated savings account.

"As a bank we can try to take some of the thinking out of the equation and harness the power of default – these types of products can help because they make it simpler for people to save as part of their busy daily lives."

23 Financial capability in the UK: Results from the 2018 survey of adults. See Figures 8 and 10. https://masassets.blob.core.windows.net/cms/files/000/001/122/original/Financial_Capability_Building_Blocks_Technical_Report_2018.pdf

24 https://www.fincap.org.uk/en/thematic_reviews/encourage-people-to-save

25 Starling Bank. 2018. <https://twitter.com/starlingbank/status/1070335803048554498?lang=en>

26 Tandem. 2019. <https://intercom.help/tandembank/autosavings/rules/round-ups>

b) Savings goal-setters

This feature has existed for at least ten years; the Saffron Building Society launched their 'Goal Saver' in 2008²⁷. While it's now more widespread, not every provider offers it. Within an account, the customer can set at least one specific goal (such as a holiday or car) and save money through regular or manual payments into a separate or virtual savings account. Once customers start saving towards their goal, they can track their progress.

Some providers such as RBS, Starling and Monzo allow customers to personalise the goal by choosing a customised name, rather than selecting from a list.

RBS reported large take-up after launching its Savings Goal Tool. It found that on average, customers using it save an average of £229 more per month than customers who don't use it²⁸.

There is a range of published evidence on the positive impact of goal setting on building a savings habit²⁹. Feeding back on progress increases the goal's prominence and personalising the name and being able to upload a picture may increase commitment to reaching the goal³⁰.

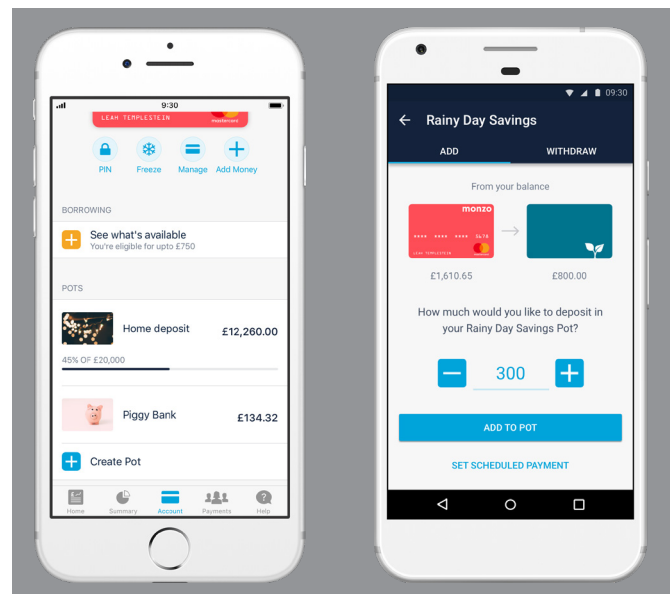
Savings calculators and budget planners are complementary to savings goal setting features. Savings calculators help customers understand how much they need to save. Budget planners take users through their income and expenditure in a way that feels easier than using a spreadsheet to identify how much they might be able to save.

Savings goal-setter: Monzo – 'Pots' saving feature

The Monzo banking app has a feature called Pots whereby customers can set money aside for bills or a particular savings goal. Customers can name the pot after the specific goal and upload a picture onto the pot as well as set a target amount to save.

Money put into pots is set aside from customers' main Monzo account. Customers can create rules so they can automatically move money in or out of their pots. These rules use the 'If This Then That' (IFTTT) web service and customers can use prewritten rules (in downloadable applets) or write their own. Saving money can be triggered by certain behaviours, such as adding money into the savings pot when fast food is purchased.

"Pots came about because we wanted something to support savings. It's a useful tool to help people manage their money and you can use them in all kinds of different ways to encourage better money management."



27 Charlie Leadbeater and Antony Elliott. 2013. The RSA and the Fairbanking Foundation. A better kind of banking. <https://fairbanking.org.uk/fairbanking-reports/>

28 RBS website, <https://personal.rbs.co.uk/personal/savings/how-to-set-up-a-savingsgoal.html>

29 See for example: Money Advice Service. 2016. Closing the savings gap: Insights from Money Advice Service research. https://masassets.blob.core.windows.net/cms/files/000/000/548/original/MAS_Savings_Report_Sept_2016_FINAL.pdf; or, The Fairbanking Foundation. 2013. A better kind of banking. <http://fairbanking.org.uk/fairbanking-reports/>

30 Paul Dolan, Antony Elliott, Robert Metcalfe, and Ivo Vlaev. 2012. Influencing Financial Behaviour: From Changing Minds to Changing Contexts. Journal of Behavioural Finance, 13:2, 126-142.

c) Workplace savings from payroll

Customers can choose a regular amount of money to be taken directly from their salary to go into a savings account, as their salary is paid into their main current account.

Workplace saving is not new, as this has been offered by credit unions for many years. More recently, through a partnership with Salary Finance, Yorkshire Building Society has also started to offer savings products in the workplace.

Workplace savings from payroll: Yorkshire Building Society – Salary Finance

Yorkshire Building Society, in partnership with Salary Finance, enables employers to allow their employees to choose a regular amount of money to save directly from their salary every time they are paid.

If employees opt in, a Yorkshire Building Society savings account is opened for them. Then each time they are paid, Salary Finance diverts a portion of their salary straight into the savings account. This starts a savings habit and allows savings to be kept separate from day-to-day spending. However, money can still be accessed and withdrawn at any time, without loss of earned interest, if it's needed.

“To help people to build a savings habit you have to make it easier for them. We’re doing this by enabling money to be paid directly into a savings account from salary before it lands in an employee’s current account...most people focus on the amount that is available to spend, so having already put some money aside is a very simple way of saving every month.”

This uses the power of defaults and places money into a savings account before it can be missed. So, saving becomes another monthly deduction alongside tax and any other payroll deductions.

The Money and Pensions Service is co-funding a field trial of a similar product, Jars (previously known as Sidecar Savings). Employers offer a payroll-deduction scheme to their staff allowing them to make regular payments from their salary into a cash savings account alongside contributions to their workplace pension. Employees save up to a capped amount into the account, accessible at any time. But once the cap is reached any additional payroll deductions flow directly into the workplace pension, accessible at retirement.

NEST Insight is conducting the field trial in partnership with Harvard Business School, Salary Finance - and Yorkshire Building Society as the regulated savings-product provider. Timpson is the first major employer to trial Jars.

The Money and Pensions Service is also working with Leeds Credit Union and Leeds City Council to evaluate the impact of its payroll deduction scheme on people’s financial and health outcomes. Findings will be reported in early 2020.

d) Automated saving

Automated saving regularly moves small amounts of money from a customer’s current account into a savings account. The amount moved depends on how much surplus there is. RBS offers a ‘Regular Sweep’ service which moves any extra money left in a customer’s current account into their savings account just before they are paid their salary³¹. Tandem offers ‘Autosavings’³², offering manual top ups, and a ‘Safe to save’ feature, similar to Plum’s automatic savings feature.

This is another feature that uses the power of defaults, to build a regular savings habit. Saving either just before the customer is paid, or removing small amounts regularly.

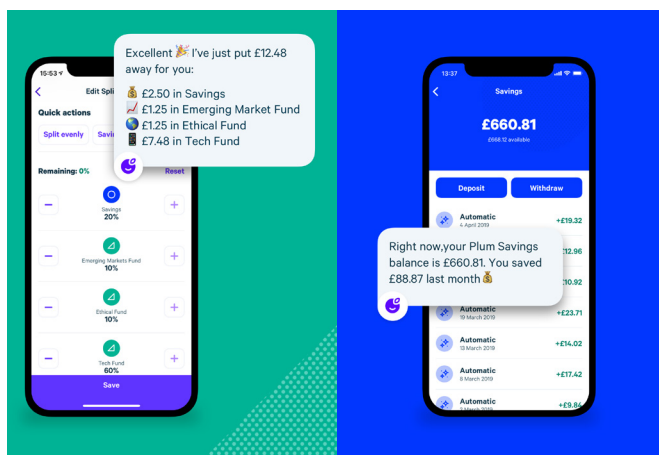
31 RBS. 2019. Additional services: Extra help in covering your bills and building your savings. <https://www.rbs.co.uk/personal/ms/g1/money-manager/additional-services.ashx#tabs=section2>

32 Tandem. 2019. Autosavings. <https://intercom.help/tandembank/autosavings>

Automated saving: Plum – Automated savings

Plum analyses customer transactions and identifies regular income, rent, bills and daily spend. Using this and other factors such as available balance, its algorithm will run every few days and calculate an affordable amount to save for customers, which is then automatically deposited into a separate savings account. Customers can select a savings 'mood', such as 'ambitious' or 'shy', and Plum will adjust your savings accordingly. For example, if a customer selects 'ambitious', Plum will save 50% more. Customers use Plum via Facebook Messenger and there's an app coming soon as well.

"So, the way the saving algorithm works is that it pulls out chunks of money on a regular basis that you don't miss, or don't even realise have left your account! These are amounts tailored to the individual customer's financial profile, which over time create a buffer of savings. Plum has a lifetime value to its customers and many go through a graduation process in their financial life, through using Plum. There may be people that come to us who are deep in their overdraft with bad credit, who we gradually help back into the black. Others may not have debt, but always spend their money so that they aren't left with much at the end of the month. Others may already have a saving buffer, but want to step up the amount they can save, and maybe even invest it. Plum will adjust its saving mechanisms to work out the right path for you."



e) Saving regularly to build credit rating

Pockit offers a simple current account, consisting of a prepaid card managed through a mobile app. They also offer a unique feature from the company LOQBOX. LOQBOX is a hybrid savings and credit product that enables customers to increase their credit score through regular saving. Customers pay a regular monthly amount for a year. However, these savings are structured as a loan which cannot be accessed until the savings goal is reached and the loan is technically repaid. This enables customers to build up a good credit history, by successfully repaying the loan, as well as building up savings.

This works in a similar way to a savings goal setting feature. Although, if they miss a payment, their credit rating could be worse than before using LOQBOX.

Saving regularly to build credit rating: Pockit – LOQBOX

LOQBOX is a virtual account that the customer commits to making a set monthly contribution towards, similar to a 'regular saver' account. However, as the customer has committed to contributing a fixed amount for a fixed time, the back-end product is a 0% interest loan that is repaid over time. If the customer makes contributions without unlocking savings early or missing months, they build up a good credit history. At the end of the fixed term, the full value within the LOQBOX savings are returned to the customer, resulting in the customer having built up a savings buffer, but also gaining a higher credit score. This means they may be able to access other credit products on better terms, or for the first time.

"The LOQBOX product was launched pretty generally. But what we found is that take up has been huge among those people we would consider as being financially vulnerable."

2.3.2 Features to help people keep track of their payments and balance

Keeping track by monitoring income and spending makes it easier for customers to know when to adjust spending and how much money is left over. The Financial Capability Survey shows that keeping track is useful in good times, essential in bad times and provides the basic information needed to make money management decisions. Providers have developed features to give customers a way of monitoring their income and spending more easily and provide information to make better financial decisions. These features identified include:

- a. **Balance after bills** – showing discretionary monthly spending amount after regular commitments are paid for
- b. **Spending analysis** – categorising where customers are spending their money
- c. **Viewing all accounts in one place** – from current and savings account providers
- d. **Overdraft or fraud text/app alerts** – to warn of going overdrawn or potentially fraudulent transactions
- e. **Incentivising direct debits** – to encourage good money management

a) Balance after bills

Some providers, including HSBC, Metro Bank, Tandem and Monzo offer a 'balance after bills' feature, to show how much money is left over each month. This works by taking a customer's balance and subtracting their standing orders and direct debits, until payday. This makes it easier for customers to keep track of their discretionary income and to budget more accurately.

Balance after bills: Tandem – Spending Money

The Tandem banking app automatically shows users how much money they will have left until payday. It does this by using the regular bills from the past three months to estimate a customer's upcoming bills. It then subtracts the unpaid bills from the current balance to show how much money is probably available to spend. The app then shows current balance, estimated total upcoming bills and the remaining 'spending money' until payday. This enables customers to better understand their discretionary income and budget more accurately.

"We think it's more responsible to show the customer how much they can actually spend, rather than their credit limit."

By showing the amount of money available after bills, this feature offers an easier form of budgeting. An evaluation of three budgeting apps reported a third of people improved their ability to keep track, and a quarter felt more motivated to save for unexpected expenses³³.

b) Spending analysis

This is an automatic classification of payments, so that customers can easily keep track of the amount they spend by category. The categories vary by provider but will use labels such as 'transport', 'shopping', or 'eating out'. This feature is offered by a number of providers including Clydesdale, HSBC and Metro. Metro was among the first to deliver additional automated analysis of spending patterns. Its Insights app combines the 'balance after bills' feature with spending analysis.

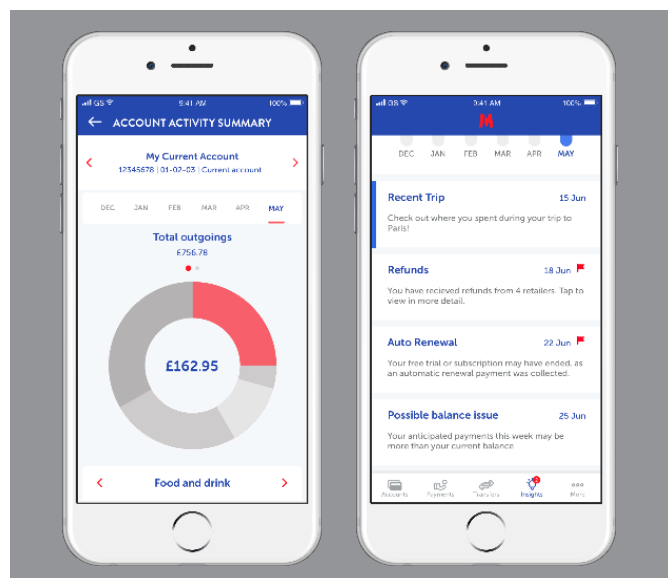
Spending analysis visualises the effect of certain habits over time that might otherwise go unnoticed, for example, just how much a weekly grocery shop costs, or how much a daily takeaway coffee adds up over a month. This may prompt the customer to think if these habits are the best use of their money and to consider adjusting their spending. Evaluation of an online budget planner tool, which categorises spending and directs to budgeting tips, showed that at least in the short term it can lead to marked changes in spending and encourage saving³⁴.

Spending analysis: Metro Bank – Insights app

Insights is an AI-powered money management tool within the Metro Bank mobile app, enabling personal mobile customers to manage their money more effectively.

It applies predictive analytics to users' spending patterns, which is then translated into tailored prompts as well as alerts that anticipate customers' spending. Users will be able to see a breakdown of where their money goes each month, delve into individual spending categories, and receive bespoke tips on how to manage their finances. Based on previous months' activities, the in-app alerts inform customers when there is not enough money in their account to cover likely spend or when there has been a change in the amount of money paid to a regular supplier and also if they have been charged twice for the same item.

"Life is busy at the best of times. Insights is all about using technology to make customers' lives easier, saving them time and providing a helpful nudge when they need it the most. Whether your account needs a top up to avoid you straying into an overdraft, you're looking for a breakdown of how much you spent on a recent holiday or you simply want to know when you got that refund, Insights makes managing your finances straightforward."



34 <https://www.fincap.org.uk/en/evaluations/evaluation-of-mas-budget-planner-online-tool>

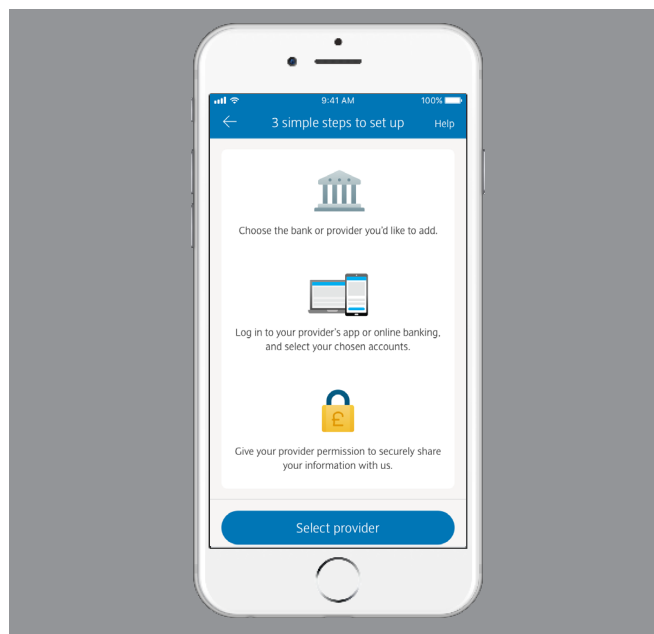
c) Viewing all accounts in one place

Open Banking enables personal customers to safely allow access to their account transaction data to a third party who can offer them a range of products or services using the live information from one or several of their accounts. This has been brought about by the Competition and Markets Authority mandating the nine large providers (the CMA9) to provide regulated third-party providers secure access to customers' account information; through standardised Application Programming Interface (API) specifications. It opens the way to new products and services that could help customers get a better deal. It can also give customers a more detailed understanding of their accounts, and help them find new ways to make payments and make the most of their money. Providers can use this to enable customers to view, from a single place online, all of their UK current accounts, some savings accounts, credit card and mortgage accounts and loans, even if these are from different providers. This can help customers keep track more easily of the amount of money they have at any moment across their different accounts. We found that about a third of the providers we talked to offer open banking related products.

Viewing all accounts: Barclays – Barclays app

The Barclays app enables customers to see their current accounts from other banks in one place. This has helped put their customers in even more control over their money, allowing them to understand their financial position at any given moment across all their providers, meaning there's no need to switch between many apps.

The feature has been designed with customer security at its heart. It uses the industry-approved Open Banking API technology to ensure that customers' accounts are linked into the app securely, without them ever needing to give out their other banks' usernames or passwords. Barclays customers will also be able to view all their data permission history for added security and peace of mind.



d) Overdraft or fraud text/app alerts

Text or app alerts, which warn customers if there is a risk of going over an agreed overdraft limit, were offered by around half of the providers interviewed. Customers tend to be automatically enrolled if they have a mobile number. For example, the Co-operative Bank will text customers who are about to go or have gone into an unauthorised overdraft. Lloyds Bank will send a mobile alert if a customer is using an overdraft and being charged, if the balance falls below £50, or there is not enough to pay a standing order. Some providers also offer fraud identification alerts highlighting suspicious payments.

Alerts make it easier to keep track of spending as these are proactive and don't rely on the customer to continuously check their account. Though regularly checking account balances is part of financial capability, the 2018 Financial Capability Survey found that 39% (20m) UK adults do not know their balance within £50 pounds. Research published by the FCA found that automatic enrolment into alerts for going into unarranged overdrafts save customers 25% in unauthorised overdraft use charges. These are effective because they give you relevant and timely information³⁵.

35 Andrea Caflisch, Michael D. Grubb, Darragh Kelly, Jeroen Nieboer and Matthew Osborne. 2018. FCA. Sending out an SMS: The impact of automatically enrolling consumers into overdraft alerts. Occasional paper 36. <https://www.fca.org.uk/publications/occasional-papers/occasional-paper-no-36-sending-out-sms-impact-automatically-enrolling-consumers-overdraft-alerts>

e) Incentivising direct debits

Some providers offer cashback or rewards to encourage good money management, primarily by setting up direct debits. For example, for Co-operative Bank Everyday Rewards, customers must stay in credit or within the overdraft limit and pay at least four direct debits. Barclays offer Blue Rewards for up to two direct debits and for having buildings or contents insurance, which then more than covers the cost for opting in. RBS also offers MyRewards which gives 2% on household bills paid by direct debit.

The Money and Mental Health Policy Institute recommend direct debits as, 'vital tools in helping people who struggle to remember payment obligations to avoid fees and other sanctions'³⁶.

Where use of direct debits reduces the effort needed to pay bills (or risk of forgetting to pay bills) and makes money management easier, rewards encouraging their use provide an immediate incentive to encourage people to act. Although for some customers who need a greater level of personal control of their payments, direct debits may not always be appropriate.

2.3.3 Helping people shop around for a better deal

Shopping around for current and savings accounts – and products and services more broadly – can help customers get more for their money. While current and savings account comparison websites are common, they are rarely promoted by providers. We found one case where product comparison was developed as a core account feature:

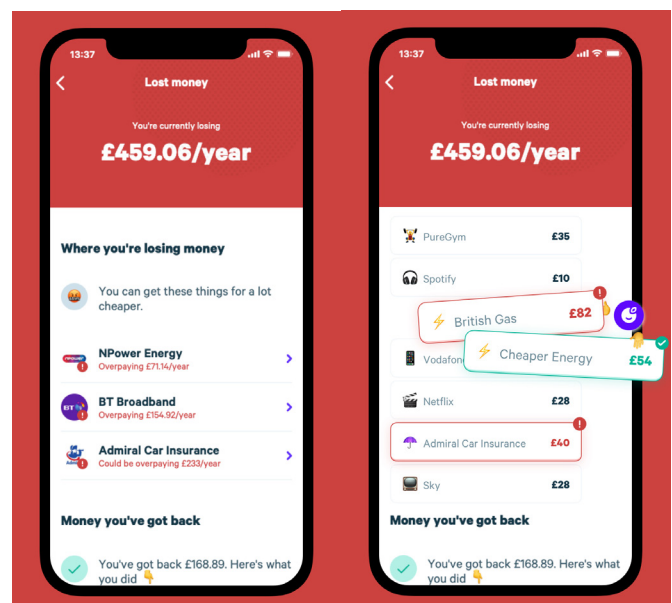
Utility bill switching

This function looks at a customer's regular payments for utility bills. It compares rates and recommends a new supplier if they offer a cheaper rate, to reduce costs. We found two providers offering utility bill switching. Both providers monitor bills and compare with other tariffs, and if they find a cheaper deal they send a message with an option to change by replying to the message.

Utility bill switching: Plum – Energy bill switching

The Plum mobile app includes a feature that lets customers know when they could save money on their energy bill, amongst other expenses. It monitors how much you pay per month, to whom, cross-checks this with a repository of tariffs for UK suppliers and then uses this and other information to make smart assumptions around that user's usage. It then automatically works out what the cost of energy, for the same implied usage, would be with Plum's partner energy provider and then notifies the user if a saving could be made. At the point that the user is notified about the value switching can bring, Plum leverages the data it has on the user as well as APIs the switching partner has, to enable them to switch their energy provider within the Plum app itself within 90 seconds.

"We do that to let them know that we can find a better deal for them and then we can handle the switch at the click of a button."



36 Merlyn Holkar. 2017. Seeing through the fog: how mental health problems affect financial capability. Money and Mental Health Policy Institute. <https://www.moneyandmentalhealth.org/fincap/>

In 2018, Ofgem found the cheapest market tariff for energy was £320 lower than the average standard variable tariff price of the largest suppliers³⁷. This feature has the potential to make a difference by providing salient information in a way that is easy to act on to reduce spending.

2.3.4 Features to help restrict or limit spending

Being able to curb the impulse to spend, spending self-control, is linked to managing money well. We identified two features aligned to spending self-control:

- Gambling blocks - allow customers to block recognised merchants
- Cash withdrawal limits - prevent or set a daily cash withdrawal limit from ATMs

The Money and Mental Health Policy Institute list restrictive settings for cards (including gambling blocks and cash withdrawal limits) in their best practice checklist for providers³⁸.

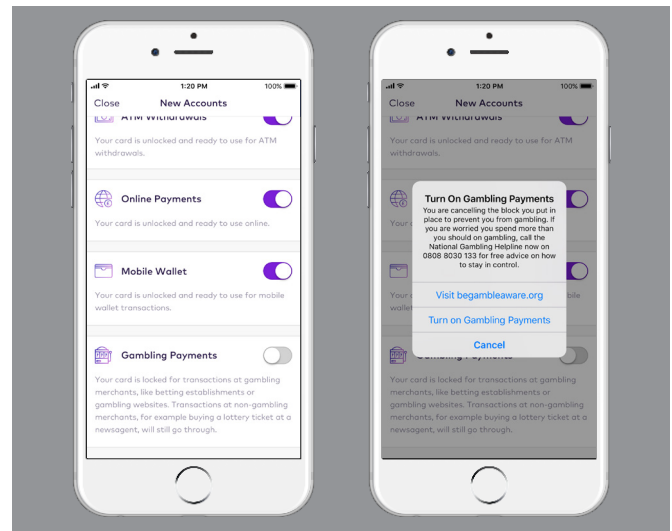
a) Gambling blocks

This feature allows customers to block, via their mobile app or online account, spending with recognised gambling merchants. At the time of the research, we found this is offered by Starling, Monzo, Barclays and First Alliance credit union. Monzo add more friction to overcome the impulse to turn off the gambling block by requiring you to talk to their customer support and add a 48-hour delay. Barclays has extended the feature to include premium-rate websites or phone lines. First Alliance can apply blocks to their cards on gambling websites and also payday loan companies and those offering high interest credit on household goods.

Gambling blocks: Starling Bank – Gambling blocks

Starling Bank has recognised that some of its customers may need help to limit spending on gambling. They offer specific merchant blocking facilities to ensure customers do not gamble their money impulsively. Within the Starling app there is a function that allows customers to block spend at all gambling establishments. When this function is turned-off Starling prompts the customer to visit the GambleAware website for further support.

“Traditionally blocking spend with Gambling merchants has been hard for anyone wanting to manage their habits. By developing our Gambling block, we are empowering our customers to take control. Our rich database of merchant data allows easy blocking of 1000s of gambling operators. Insight for this feature was informed by one of our customers and backed up by research and the Gambling commission.”



37 Ofgem. 2018. State of the energy market 2018 report; <https://www.ofgem.gov.uk/publications-and-updates/state-energy-market-2018>

38 Money and Mental Health Policy Institute. 2017. Money and Mental Health Problems: Breaking the Link. A best practice checklist for banks and current account providers. <http://www.moneyandmentalhealth.org/wp-content/uploads/2016/06/Banks-and-current-account-providers-Best-practice-checklist-1.pdf>

b) Cash withdrawal limits

While providers limit the amount of cash that can be withdrawn from ATMs each day, this feature allows customers to limit or block cash withdrawals themselves. Therefore, aiming to give people the

opportunity to manage their spending in a way that they want to. We found one provider offering this feature. The Barclays banking app allows you to limit or stop cash withdrawals from ATMs.

2.4 Conclusions and reflections

From this research, we can see a range of examples of how existing current and savings account features can help to improve customers' financial capability. These were mainly focused on helping customers to keep track of their spending and account balances e.g. balance after bills (showing available spending after bills) and gambling blocks, and to build savings e.g. savings goal-setters and automated saving. Surprisingly, there was less of alignment with three of the strongest predictors of current financial wellbeing, including: not borrowing for everyday spending, sense of control and financial confidence.

Providers told us that the development of these features is ultimately driven by putting customers at the centre of their business, rather than with the specific aim of improving financial capability. While they recognise that improving financial capability is aligned to longer-term commercial goals – such as improving customer acquisition, retention and value – it's not something that is typically considered as part of business cases, nor is it systematically measured or tracked.

Progress is being made, but there is a significant opportunity to do more to help improve customers' financial capability. In addition to implementing versions of the features highlighted in this report, providers need a greater and more consistent understanding of:

- the financial capability of their customers;
- how to develop features to improve this;
- how to measure and track the impact of these features on customers' financial capability and wellbeing; and
- the benefits to the business of improving customers' financial capability.

While we can see a significant increase in digitally-led solutions for customers, it remains vital for the sector to continue to offer in-person support, for example through "in branch" support. An example of which is outlined in the below case study:

In branch support: RBS – Financial Health Check

RBS offer Financial Health Checks either by phone or in branch, to customers and non-customers. The Financial Health Check has three aims: Protect what's important to you; Take back control of your money; and, Planning for a successful future.

Each check is an appointment for a 20 minute chat, with a senior personal banker, around your needs and goals. The chat considers all areas of your finances, including current accounts and savings, mortgage, loans and credit cards, and insurance. This is to help you make informed decisions and tries to save or make you money, while protecting the things most important to you. They will suggest easy ways to stay in control of your day-to-day spending and to build up savings. They can also show you how to make the most of your banking app. Then they can refer you for more specialist help if you want or need it. In 2018 over a million people had an RBS Financial Health Check.

"We have very much re-centred things around understanding the customer situation and their needs, rather than being driven by products. We do just over 1 million financial health checks a year with customers and non-customers and feedback has been very positive about that."

To enable the internal investment necessary to make and sustain these changes in the long-term, providers also need to understand how to build the business case for improving financial capability. Which specific aspects of financial capability drive commercial goals, and by how much?

For example, we know from research by Bain & Co that helping customers reduce their anxiety around money – an important aspect of financial capability – has the third highest impact on Net Promotor Scores after quality and time-saving³⁹. Yet, we also know that 47% of UK adults (24.3m) don't feel confident making decisions about financial products and services⁴⁰ – meaning almost half of retail banking customers may associate financial products with anxiety.

We look forward to working with the sector to develop and implement the changes needed to have meaningful impact to people's financial capability. The following section sets out recommendations for the retail banking sector to consider, with the support of the Money and Pensions Service, to achieve the step change that is needed.

39 Bain & Company, Figure 3, <https://www.bain.com/insights/in-search-of-customers-who-love-their-bank-nps-cx-banking/>

40 2018 Adult Financial Capability Survey, https://masassets.blob.core.windows.net/cms/files/000/001/148/original/Adult_Financial_Capability_Survey.pdf

3. Recommendations to achieve a step change



Improving financial capability is a major and complex national challenge. It requires a wide range of organisations from different sectors to work together – and individually – to shift the dials at a national scale. As this report shows, the retail banking sector is a critical partner in addressing this challenge.

We are working with a range of stakeholders to develop and co-ordinate a National Strategy to improve the financial capability of members of the public, as part of our statutory objectives. The Strategy, due to be published in Autumn 2019, will set out what is needed nationally and what roles the Money and Pensions Service, and its partners, should play as part of that.

We want to work with the retail banking sector to help it achieve better outcomes for customers. This report highlights that progress is being made by the sector, but more needs to be done. These insights, together with existing resources, skills and expertise of the Money and Pensions Service can build the momentum that's needed to accelerate our collective response to improving the UK's financial capability.

The following pages set out recommendations we believe the sector should consider. These are grouped into three areas:

1. **Improving customers' financial capability should be a strategic goal for the sector.**
2. **Financial capability should be integral to product and service design and evaluation.**
3. **The sector should work together to drive a cultural shift around money in society.**

We want to drive significant, sustained change over the longer-term. We believe, together, we can have meaningful impact to achieve a step change in customers' financial capability and wellbeing.

1. Improving customers' financial capability should be a strategic goal for the sector

We want to demonstrate improving financial capability and wellbeing is good for business – making it easier for providers to more consistently do the right thing for customers. As described in the previous section, existing evidence already links reducing customers' anxiety around money – a key aspect of financial capability – with increased Net Promoter Scores.

Additional evidence is needed to show that other aspects of financial capability can also drive commercial goals – such as, to what extent improving customers' capability around spending and credit management may lead to reductions in the numbers of customers in arrears. Or to what extent increasing customers' confidence and engagement with their money may lead to a greater proportion of customers taking out additional products and services.

Detailed recommendations:

1.1 Formally consider the benefits of improving customers' financial capability and wellbeing as part of building the business case for new products, services and features.

1.2 Work with the Money and Pensions Service to build the evidence of the causal links between improving financial capability (and wellbeing) and achieving longer-term commercial value.

2. Financial capability should be integral to product and service design and evaluation

There are three key considerations for embedding financial capability in mainstream product and service offerings:

1. Understanding customers' financial capability needs;
2. Providing effective solutions for customers; and
3. Measuring impact and sharing learning.

Firstly, having a **better understanding of customers' financial capability** can help the sector provide more tailored and relevant support to their customers. The sector gathers and holds a vast amount of data and insights. The Money and Pensions Service has a financial resilience model (see Annex 1) that is used to determine the financial capability attributes of different population segments⁴¹, including key measures and metrics that we track at a national level. Providers can use these tools and resources, and apply them to their own customer base.

Secondly, having a greater understanding of the financial capability needs of customers enables **more targeted design of new products, services and features**. Providers should enhance their existing design and development approaches to integrate financial capability with other design priorities, such as customer experience and behavioural science.

We recognise this change requires providers to develop new capabilities within their design teams, and so have already started to work with a number of financial services firms to help them do this. In 2016, we created The Financial Capability Lab⁴² in partnership with the Behavioural Insights Team to design and test new solutions to help people better manage their money. We are now working with partners' design teams to co-develop some of the most promising Lab ideas and test them in the field.

Two of these partnerships – Lloyds Banking Group and Monzo – are described here as case studies.

Merchant-based spending block: Monzo

Monzo are working with the Financial Capability Lab to develop and test spending blocks to help customers improve their self-control around impulse spending. In one leading idea for the trial, customers will be able to set to block merchants within the Monzo app. Two types of behavioural interventions will be tested.

For the first, 'Tell yourself why', customers will write a message to their future self, setting out why they want the block in place – this will be shown to the customer when they try to spend or remove the block to remind them of their initial motivation.

For the second, 'Cut cut cut', customers will upload an image that reminds them of why they want to reduce their discretionary spending – if customers want to cancel the block, they would have to 'cut' through it by tapping on the screen multiple times.

"Monzo's mission is to make money work for everyone. We want to empower people with the tools they need to manage their money better. We currently have a range of features and budgeting tools to help people save or spend less, but we want to continue to add to this. So, we seized the opportunity to work with the Financial Capability Lab to build out behaviourally informed ideas to aid better money management."

Merchant based controls are frequently requested by our customers and we are looking forward to introducing some meaningful controls for our customers and measuring the impact"

41 Market segmentation infographic: https://masassets.blob.core.windows.net/cms/files/000/001/137/original/Market_Segmentation_Segment_Infographics.pdf

42 The Financial Capability Lab, <https://www.fincap.org.uk/en/articles/the-financial-capability-lab>

Financial Wellbeing Lab: Lloyds Banking Group

Lloyds Bank established several ‘customer journey transformation labs’, one of which is the Financial Wellbeing Lab. A key aim of this Lab is to understand how customers get into financial difficulty and how to prevent this from happening. The Financial Wellbeing Lab is a new permanent department with its own budget. It has brought previously siloed internal teams together so they are now located in the same place and on the same floor. The Financial Wellbeing Lab spent around three months researching the end-to-end journeys of their customers, and have used the learnings to develop and test various products, services and interventions to help improve these journeys and customers’ financial capability. One such new service is ‘Repay and Save’, which is being developed and tested in partnership with the Money and Pensions Service and the Behavioural Insights Team. This new service is for customers who have fallen into arrears – a repayment plan is set up to repay missed payments and once they have been repaid, customers are then seamlessly transitioned into building a rainy-day savings buffer by continuing the monthly payments into a savings account.

“The lab has a vision of making the journey of being in financial difficulty, from the point of recognising financial difficulty to conclusion, a market-leading experience. We ran a load of research and lab testing to see what people go through and to understand what ‘good’ looks like. We looked at other industries across the globe to see how others do it better and then used this to decide on a range of different products we wanted to run experiments on such as a product we are testing called ‘Repay and Save’.”

Thirdly, robustly **evaluating and measuring the impact** on customers’ financial capability and wellbeing is crucial. The Money and Pensions Service has developed a range of tools and resources that can help, including:

- an Evaluation Toolkit⁴³ to help firms understand how their interventions work, and how to measure their impact on people’s financial capability;
- a suite of Outcomes Frameworks for different life stages. Each of these is based on our research to understand the particular components that are the best predictors of financial wellbeing, and comes with a set of ready-made survey question banks; and
- a Financial Capability Evidence Hub⁴⁴, where firms can find insight and evidence from the UK and abroad to inform the design of their interventions. We encourage firms to send us their own research so we can publish it here - for the benefit of others across the financial capability community.

The Evaluation team at the Money and Pensions Service can support providers in using the toolkit and outcomes framework.

Detailed recommendations:

Understanding customers’ financial capability needs

2.1 Apply the Money and Pensions Service’s financial resilience model to your customer base to better understand the financial capability and wellbeing needs of your customers.

2.2 Incorporate the Money and Pensions Service’s standard measures of financial capability and wellbeing into market and product research activities.

43 Evaluation Toolkit, <https://www.fincap.org.uk/en/articles/evaluation-toolkit-overview>

44 Evidence Hub, <https://www.fincap.org.uk/en/articles/financial-capability-evidence-hub>

Providing effective solutions for customers

2.3 Embed financial capability outcomes into design and development processes, integrated with approaches to customer experience and behavioural science.

2.4 Consider implementing and evaluating features highlighted within this report.

2.5 Consider taking forward ideas and approaches from the Financial Capability Lab.

Measuring impact and sharing learning

2.6 Engage the Money and Pensions Service to understand how to make use of the Financial Capability Evaluation Toolkit and Evidence Hub.

2.7 Embed financial capability impact evaluation into core product testing approaches.

2.8 Share learning of what solutions do, and do not work to help customers improve their financial capability and wellbeing.

3. The sector should work together to drive a cultural shift around money in society

We believe there is a major opportunity for the retail banking sector to engage and influence millions of people to think differently about money. For example, by using customer data to help improve financial capability through targeted interventions. Or through national campaigns, such as Lloyds Bank's "The M-word"⁴⁵ campaign in partnership with Relate, the leading relationship support charity, which aims to help make the difficult conversations about money easier to have.

Detailed recommendations:

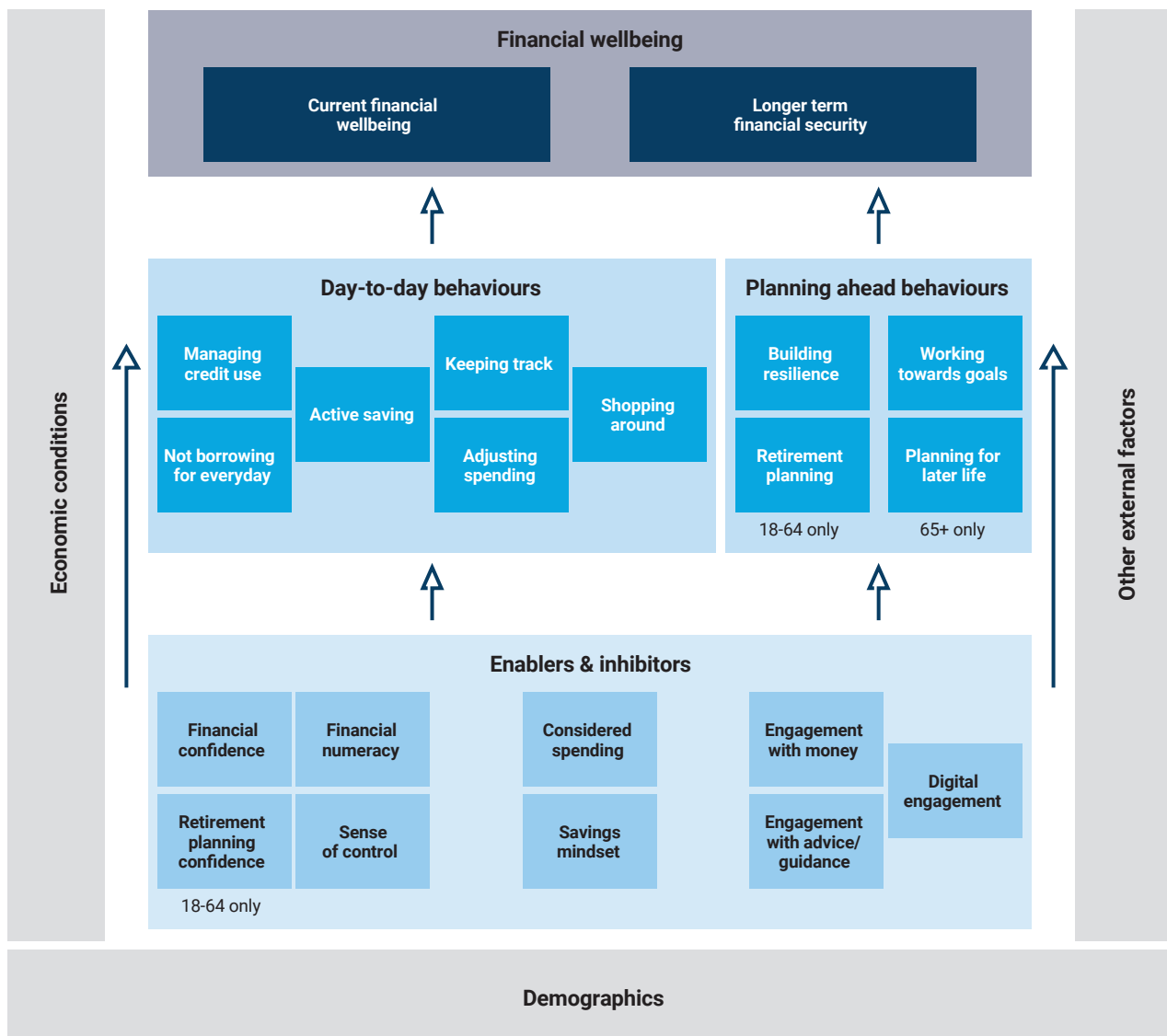
3.1 Use data to observe customer behaviour around money and make recommendations to them to help them be more in control and reduce their anxiety.

3.2 Work with us to explore collaborative campaign opportunities to encourage more people to talk about money.

Annex 1 - Building Blocks of Financial Capability

As well as defining financial capability we have measured it through the 2018 Adult Financial Capability Survey of nearly 6,000 adults living in the UK. From the answers to more than 100 questions, we have identified the key components of financial capability and the inter-relationships between them. We have highlighted the differences between managing money now and planning for the future. And we have identified

the barriers or enablers for achieving better financial wellbeing. We have summarised this in a robust model – the Building Blocks of Financial Capability – using statistical analysis (shown below). These building blocks help us to understand what financial capability means in practice. It also allows us to track changes over time and identify and prioritise where people need more help.



Using the statistical modelling we can show how much a difference in one component score predicts a difference in Current financial wellbeing and Longer-term financial security.

The Building Block components help to relate the overall definition of financial capability – **managing money well, day-to-day and through significant life events** – to real-world behaviours and characteristics of financially capable people. We can therefore assess how each of the features identified earlier may support the different components of financial capability. While the research did not evaluate how effective these features are in achieving financial capability outcomes in practice, we can use the building blocks framework to see where features are aligned to components that are stronger predictors of financial capability and wellbeing outcomes.

We've grouped the features around helping people to:

- Build savings – savings for expected or unexpected expenses to support active saving and building resilience.
- Keep track of their payments and balance – if and how people monitor their income and spending and if people change their spending proactively or reactively.
- Shop around – to get the best deal on the most appropriate product to make the most of your money.
- Restrict or limit spending – curbing impulses to spend.

We found that the features mainly cluster around the following Building Block components: Active saving, Keeping track, Shopping around, Managing credit use and Spending self-control. But there was less of an alignment with three of the strongest predictors of current financial wellbeing:

- Not borrowing for everyday;
- Sense of control; and
- Financial confidence.

Mapping features to financial capability components does not, in itself, prove that each of these features increase financial capability. However, it does show that they are aligned with financial capability and is a first step. Evaluation is needed to understand how effectively they help customers to improve their financial capability, both in terms of specific components and overall. There is also an opportunity for greater focus and priority in areas where there's less alignment, as we know how strongly linked these are to a person's financial wellbeing.

Annex 2 - Research methodology and process

We commissioned IFF Research to undertake primary research to understand how retail banking providers offering current and savings accounts are helping customers improve their financial capability through their products and services, and how it's understood and governed across the sector.

The aim of the research is to explore the following:

- how financial capability is defined and understood within retail banking firms;
- how financial capability is viewed and how relevant initiatives are governed, specifically with respect to products and services for mainstream customers;
- existing examples of current and savings account products, features and services with the potential to support customers' financial capability and wellbeing;

- the commercial drivers for improving customers' financial capability, and the extent to which these inform decision-making around product, feature and service offerings; and
- retail banking providers' view of the role they believe the Money and Pensions Service should play in working with the sector to improve customers' financial capability and wellbeing.

The Money and Pensions Service (operating as the Money Advice Service at the time) identified and recruited 19 firms to participate in the research, all of which have given permission to be listed here:

Firm	Type of firm
Barclays First Direct HSBC Lloyds Nationwide RBS	Major banks and building societies
CYBG (Clydesdale and Yorkshire Bank) Co-operative Bank Coventry Building Society Metro Bank Tesco Bank Virgin Money Yorkshire Building Society	Mid-tier banks and building societies
Monzo Plum Pockit Starling Bank Tandem Bank	Challenger banks/FinTechs
1st Alliance	Credit Union

Participants for depth interviews were identified and initially contacted by the Money and Pensions Service. After an initial brief on the project objectives and interview requirements, the point of contact at each organisation was introduced to IFF Research.

IFF then identified, briefed, gained consent and booked face-to-face or telephone interviews with relevant people who understood their firm's current and savings account products and their approach to financial capability. The participants were typically Current Accounts/Savings Accounts Product Managers at middle to senior management levels, broader commercial or marketing roles were also included.

Prior to the interviews taking place, desk research was conducted to explore what the firms are currently doing in terms of promoting financial capability. This also included identifying specific products, services and features aligned to financial capability. The research was not designed to be a detailed audit of all the 'features' providers offer that align to financial capability. Nor did it aim to list all the providers that offer each of these features. Instead, it aimed to explore some key themes to illustrate providers' perceptions of financial capability and highlight some examples of current good practice. Findings shown in this document are reflective of this.

The number of people interviewed at each firm varied on the size, structure and product offer of the organisation. At some smaller firms only one person was interviewed, at the larger firms up to four people were interviewed, either individually or in pairs.

In total, IFF interviewed 42 employees across the 19 firms, between October 2018 and January 2019. Each interview took up to an hour. The interviewers were from the IFF project team: Georgina Clarke, Research Director; Chris O'Brien, Associate Director; and, Marc Cranney, Research Manager

Interview coverage

All interviews were conducted using a consistent topic guide, developed between the Money and Pensions Service and IFF Research. The guide covered:

- how financial capability is defined, understood, governed and measured, and the teams involved;
- the commercial drivers behind products, services and features aligned to financial capability and whether tools and services are aimed at particular customer groups;
- the challenges to implementing financial capability initiatives for customers;
- what the commercial and social benefits of encouraging customer financial capability are for their firm; and
- the role they would like the Money and Pensions Service to play.

