

Integrated Product Design to Build Savings

In December 2017, Commonwealth and The Federal Reserve Bank of Boston (Boston Fed) hosted a Savings Innovation convening focused on integrated product design.

Twenty-one banks, credit unions, and nonprofits in the region gathered to discuss financial security challenges and approaches to addressing them using an integrated product framework. Interactive exercises and brainstorming allowed participants to explore creative, multi-function solutions to complex consumer needs.

Background

This event followed a June 2017 convening titled “The Emergency Savings Innovation Challenge.”¹ Many of the institutions that attended the June event returned in December to continue the conversation on this topic, share progress, and support each other’s work.

Sol Carbonell, Assistant Vice President of Regional & Community Outreach at the Boston Fed, offered opening remarks reflecting on the Boston Fed’s report, “The Color of Wealth,”² which documents racial disparities in wealth accumulation in Boston. Carbonell emphasized the critical role that financial institutions must play in ensuring that all families have access to a full range of financial products to meet all of their needs - from enabling short-term, daily consumption to building long-term savings and wealth.



Attendees brainstorm new savings product ideas.

Brian Clarke, Senior Business Strategy Manager at the Boston Fed, then shared troubling statistics on the pervasive lack of emergency savings among U.S. households and the potential for financial institutions to help address this deficiency by integrating consumer-centric innovations into their retail banking products:

- Forty-four percent of adults report that they could not cover an emergency expense costing \$400 or could cover it only by selling something or borrowing money.
- Twenty-three percent of adults had to pay a major, unexpected out-of-pocket medical expense in the previous year.
- Just under 25 percent of adults are not able to pay all of their current month’s bills in full.³

While these consumer challenges are not new, the changing nature of work, rising costs of living, and other factors have exacerbated them. Consumers with few options may turn to alternative financial services (AFS), an industry that is often predatory and harmful to financially vulnerable consumers. AFS includes check cashers, payday-loan stores, pawnshops, and rent-to-own stores - essentially any financial service not provided by a traditional, federally-insured institution. During a small-group discussion, participants noted that their institutions may have played a role in the growth of alternative services. For example, as banks stopped providing services like check cashing to non-customers, the AFS industry thrived.

The Integrated Product Framework

While traditional products are designed around single functions such as borrowing, saving, paying, or investing, consumer financial needs are often interconnected: income impacts spending, spending impacts saving, which in turn impacts borrowing, etc. This is especially true for people who live on tight incomes and face considerable volatility with little in reserve. Consequently, everyday expenses like medical bills, car repairs, and childcare costs can snowball into weeks, if not months, of financial distress.

1. <https://buildcommonwealth.org/publications/addressing-the-emergency-savings-challenge>

2. <https://www.bostonfed.org/publications/one-time-pubs/color-of-wealth.aspx>

3. <https://www.federalreserve.gov/publications/files/2016-report-economic-well-being-us-households-201705.pdf>



Products offered by the financial system often seem misaligned with these common circumstances. When the system is aligned, it usually seems to be only through high-cost alternative services.

Integrated products, also called hybrid products, have the potential to address financial insecurity from multiple angles such as by helping consumers manage debt, increase savings, build credit, and improve financial capability.

At its core, the integrated product framework puts consumers' needs first. The goal is not to create novel combinations of financial functions for the sake of being innovative. Instead, designs should cater to consumer pain points, producing products that are accessible and in high demand.

Product Examples

Emergency Employee Loan: Julieann Thurlow, President & CEO of Reading Cooperative Bank, based in Massachusetts, shared the history and features of their Emergency Employee Loan.

Inspired by the pervasive lack of \$400 in savings reported by the Federal Reserve, Thurlow and her team mobilized quickly to create this salary-advance, interest-free loan which allows Reading Cooperative employees same-day access to up to \$500 for any emergency expense, no questions asked. "We recognized that the employee base could be any one of us," Thurlow said. "And we noticed [emergencies can spark] a perpetual state of borrowing from your 401(k) - you never get out of that cycle." The loan is low-risk for the employer as \$50 is auto-deducted from the employee's paycheck for each pay period until the loan is paid off.

Self Lender: This financial services start-up based in Austin, TX combines credit building and savings. Self Lender provides loans of \$550, \$1,100, and \$2,200 through Austin Capital Bank in a 12 month CD with 0.10% APY. As you pay back the loan, you build payment history and at the end of the 12 month term, you can withdraw your savings from the CD.

Fifth Third Momentum: This product allows customers to pay down their student loans as they spend by rounding up purchases to the nearest dollar and directing those micro amounts towards loan repayment. Fifth Third Bank customers with a Fifth Third debit card can link student loans held by over 30 different servicers to the app. Customers don't have to worry about overdraft fees should their round-up exceed their account balance, and they can earn badges, called #Wins, for sticking with the habit.



Attendee matches consumer needs to product features in an interactive mapping activity.

Credit Builder & Savings Program: Lena Buteau, Vice President of Retail Administration at Monson Savings Bank in Massachusetts, presented their integrated product which helps consumers build or re-establish credit while saving and earning interest. It was specifically designed for consumers with no or poor credit, and those unable to get a cosigner for a loan. "We saw a community need to educate and help customers understand the importance of credit...and at the same time, help them save money for whatever their life needs may be."

The loan can range from \$500 to \$5,000 in a 6 to 36 month CD and does not require a credit check. As the loan is repaid on time, a positive payment history is established and reported to the credit bureaus. When the CD matures, the loan amount (plus dividends) is "unlocked" and made available to the consumer. The product also serves as a tool for education and habit development. "We hope that our customers will finish the program with an understanding of how to 'pay themselves first' by continuing to make payments into their own savings accounts to help them achieve their short and long term financial goals."



FAIR: Financial Access in Reach (FAIR) is a 3-product, integrated solution pioneered by Prepare + Prosper, a nonprofit organization in Minnesota in partnership with Sunrise Banks. It combines checking, savings, and a credit builder loan and was intentionally designed with features for low- and moderate-income individuals, like no minimum balances and no overdraft. The product can be customized to support consumers in reaching financial goals. For example, savings can be linked to a debit card to make access to the funds easy, or unlinked to create more friction (and therefore “stickier” savings) by requiring funds to be moved between accounts using the online or mobile banking platforms. Another unique aspect of FAIR is its distribution model. After a pilot launch, it will be distributed through select employers, public programs, and nonprofits. “We know that financial institutions can do well while doing good,” said Anne Leland Clark, Financial Capability and Learning Director at Prepare + Prosper. “We’ve worked with our bank partner to develop a pro forma revenue model that demonstrates sustainability.”

One FAIR user shared: “FAIR has been a game changer for me. I have opened a checking and a savings account for the first time in five years and also have begun to build my credit through the credit builder tool. I’m now banked.”

Healthline: This product design from Commonwealth is geared towards workers enrolled in high deductible healthcare plans. While these plans often have low premiums, high deductibles can be huge barriers to seeking care and drivers of medical debt. Healthline is a salary-advance loan specifically for medical expenses. Loan repayment is auto-deducted through payroll. Commonwealth is actively seeking partners to pilot this product.

Product Brainstorm: Bringing Concepts to Life

To close out the convening, participants worked in small teams to apply the integrated product framework and their own creativity to designing an original product. Most of the proposed product design ideas combined saving and spending functions. Designs also tended to incorporate the use of consumer data, analytics, and automation. Popular product features included:

- Allowing consumers to identify their own savings goals and designate “sub-accounts” for each goal;
- Automating functions like bill pay or saving driven by data and algorithms (“set it and forget it”);
- Tracking spending and predicting overdrafts by sending text message alerts and notifications;
- Sending nudges to save and providing suggested saving amounts (anchors);
- Incentivizing positive savings behavior with money provided by the financial institution (seed money);
- Motivating consumers through reward levels, badges, or other motivational prompts;
- Incorporating financial capability and literacy offerings into an app or providing it alongside a product.

Discussion

The product examples and brainstorming session allowed participants to see that combining financial functions in a consumer-centric design can produce quality products that are sought after by consumers and viable for institutions.

The two local product examples were particularly inspiring to participants, and many attendees demonstrated interest in starting similar products at their institutions. Reading Cooperative Bank’s Emergency Loan for its employees was well-received for its straightforward and confidential payroll repayment plan, which eliminates the stigma of having to ask for a salary advance. “We have shared this payroll-based product with a couple of larger non-bank employers in the Boston area,” said Julieann Thurlow of Reading Cooperative Bank. “They are considering launching the product. There is no potential harm to a company - it is just good business to take care of your employees.”



Convening participants also saw a lot of potential in Monson Savings Bank's Credit Builder & Savings Program because it provides an example of underwriting and risk-mitigation strategies that could be transferred to other products and institutions. Monson's Lena Buteau commented, "It's really almost too good to be true how easy it is! Basically, [the Credit Builder & Savings Program] is the perfect marriage of two existing products that almost all banks already offer: a savings account and a collateral loan."

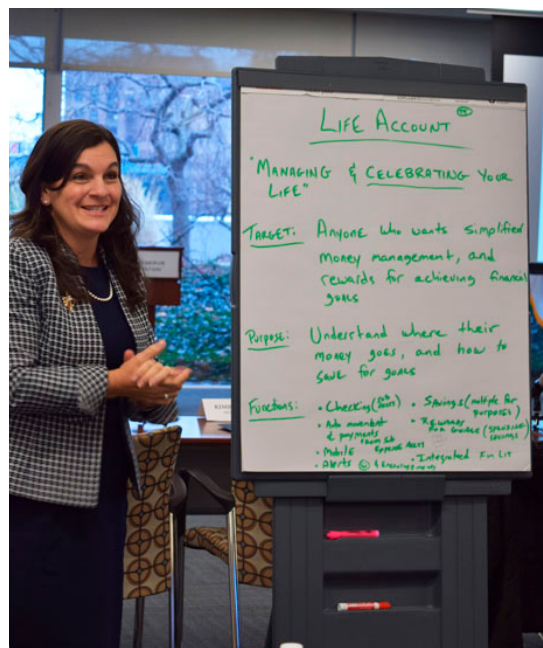
Despite these and other promising examples, creating integrated financial products has its challenges. The continued interest and engagement of the financial services industry in providing consumer-focused financial products will create additional opportunities for discussion, ideation, and partnership. Examples of challenges raised at the convening include:

- Reaching financially vulnerable consumers: institutions may not have the distribution network or reach of a community organization.
- Gaining core processor buy-in to develop a new functionality for a specific financial institution can be time and resource intensive. Maintaining competitive advantage is also a challenge if the core processor develops that functionality and distributes it to all its customers.
- Competing priorities at a financial institution may tend to focus most product design on the needs of high-wealth customers.
- Convincing senior management that the benefits of innovating outweigh the costs.
- Licensing parameters around various product designs may present barriers to replication.
- Moving past the paradigm of saving as strictly a struggle for financially vulnerable people is difficult, despite studies that show savings as a challenge across the income spectrum.
- Identifying third-party technology providers to collaborate with whose product goals and values align with those of financial institutions requires effort.

Making the Case for Integrated Product Design

The convening communicated the value of integrated products to financial institutions and aimed to demystify how they might be designed and created. Participants committed to taking concrete steps to bringing integrated product design to their institution, such as:

- Focusing product design around a specific market and its needs
- Connecting and engaging leadership and product development committees at their institutions
- Encouraging partnerships between community organizations and local banks to develop products that meet all their clients' needs
- Establishing a tax refund deposit program
- Incorporating savings into existing credit-building products
- Exploring the feasibility of offering products similar to those featured at the convening at their own institutions



Attendee shares a product idea during the group brainstorm session.

The Bottom Line

Financial institutions have a great deal to gain from integrated and consumer-centered financial solutions such as a broader customer base, and for internal product offerings, increased employee loyalty and retention:

Broader customer base

Expanding institutional reach to financially vulnerable consumers, many of whom are unbanked or underbanked, is one possible impact. Twenty percent (24.5 million) of all U.S. households were underbanked in 2015, and seven percent of households were unbanked according to the FDIC.⁴ This gap in services contributes to the perception widely held by these groups (55 percent of unbanked and 17 percent of underbanked consumers) that banks are not interested in serving their needs.

In addition, integrated financial solutions that enable customers to stabilize their finances can be “sticky” and generate satisfied, loyal customers with a significant lifetime value to financial institutions.

Increased employee loyalty and retention

Almost one in three employees finds issues with personal finances to be distractions at work. According to a report from the Center for Financial Services Innovation,⁵ over 20 hours of productivity per month is at stake for employees struggling with credit and money problems. Financial stress is also associated with higher rates of absenteeism, employee turnover, and lower job satisfaction.

Reading Cooperative Bank’s Julieann Thurlow sees the Emergency Loan product her institution offers to employees as a valuable addition to their suite of benefits. “Emergencies are by definition stressful – alleviating stress...must improve efficiency because time is not spent worrying. [And] when asked what makes the Bank’s culture different and a good place to work, employees cite this offering as evidence of a compassionate workplace.”

“[Our Credit Builder & Savings Program] will bring people into the bank that would normally not come to us.”

*-Lena Buteau
Monson Savings Bank*

Commonwealth and the Federal Reserve Bank of Boston will host the next Savings Innovation Convening on June 14, 2018. To request an invitation or for more information, please contact Alysha Alani at info@buildcommonwealth.org.

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4. <https://www.fdic.gov/householdsurvey/>

5. <http://cfsinnovation.org/research/employee-financial-health/>

