Fairbanking Ratings:
Is UK retail banking showing signs of reform?

the fair banking foundation™

Supported by:
NESTA Making Innovation Flourish

About The Fairbanking Foundation:

The Fairbanking Foundation is a charity dedicated to encouraging and helping banking institutions to improve the financial well-being of their customers and thereby the UK public as a whole. Our work is designed to provide well-researched, independent and insightful new input to assist in producing financial products that benefit customers. In 2011 the first Fairbanking Marks will be granted for products that have features which help customers alter their financial behaviour.

More information about Fairbanking can be found at **www.fairbanking.org.uk** and enquiries can be sent to **info@fairbanking.org.uk.**

Written by Antony Elliott, Director of The Fairbanking Foundation
Published by The Fairbanking Foundation, April 2011

Acknowledgements
Liz Clarke, formerly Director of Advanced Data Analytics at Barclays Bank, developed the system for recording the rating information. Professor Michael Mainelli and Leonor Fishman of Z/Yen Group provided excellent service in developing and managing the on-line questionnaires. John Osborne provided invaluable support with the graphics. Dr Ivo Vlaev acted as advisor with regard to economic psychology. Dr Andrew Hilton at the CSFI gave extensive editorial advice as did Chris Rumsey and Martin Campbell. This report is a reflection of many contributions from people both within and outside the banking sector, supporting the aims of The Fairbanking Foundation.

The Fairbanking Foundation is a company limited by guarantee registered in England under number 06625040 and registered as a charity in England and Wales under number 1125769. Registered office: 2nd Floor, 145-157 St. John Street, London EC1V 4PY.

Contents

Foreword

Financial innovation has a bad name at the moment - and rightly so. The pursuit of lucrative novelty with inadequate attention to risk has caused untold damage to the world's economy, and untold hardship to individuals.

This report and the work it describes are a welcome step in a new direction. Fairbanking Ratings and Fairbanking Marks are a timely and radical experiment to see how an accreditation system can encourage retail banks to operate more effectively in their customers' interests, providing better current accounts with fewer stings in their tails. The high level of participation in these inaugural ratings, both from the UK's largest banks and from their smaller competitors, suggests they really may change the industry for the better.

It is important to highlight what the Fairbanking Mark is not. It is not an attempt to turn back the clock and reject innovation in financial services entirely. Indeed, many of the features demonstrated by recipients of the highest ratings are innovative, from new forms of payment forecasting to improved service offerings. Nor is it a centrally imposed dictat - it is a voluntary process administered by a charitable foundation. The last four years have shown us that adequate regulation is indispensable, but if aspects of our banking system can be improved by banks themselves and their customers, so much the better.

There is also a broader lesson in this work, of interest beyond the banking sector. The Fairbanking Rating has the potential to be a powerful example of how to mobilise demand for innovation, in this case through the provision of structured information; this is something of interest to anyone who wants to use innovation to make the UK a better place.

We hope you find this work useful, and as always, we welcome your views.

Stian Westlake
Executive Director of Policy & Research
NESTA

About NESTA

NESTA is the UK's foremost independent expert on how innovation can solve some of the country's major economic and social challenges. Its work is enabled by an endowment, funded by the National Lottery, and it continues to operate at no cost to the taxpayer.

NESTA is a world leader in its field and carries out its work through a blend of experimental programmes, analytical research and investment in early-stage companies

thefairbanking foundation™

1. Introduction

In 2010, the Fairbanking Foundation, published a report entitled "Fairbanking Ratings: socially useful banking". For the first time, this report demonstrated that product features which help customer financial well-being can be identified and measured through a rating system based on financial well-being criteria. Fairbanking Ratings measure the extent to which a product contains features that, when used by the customer, are likely to improve his or her level of financial satisfaction.

Regular savings products, current accounts and credit cards were rated in the last report based on publicly available information. Thanks to a grant from the National Endowment for Science Technology and the Arts (Nesta), the 2011 report is based on a survey sent to 45 banking institutions in the UK with a response from 27 institutions, 60% of the sample. Respondents included four of the top six UK banking organisations (Barclays, HSBC, Lloyds Banking Group, and RBS/NatWest) meaning that a significant percentage of the UK market for these products is covered. This report has been expanded to include non-debt current accounts and to comment on credit union products. The participants are detailed in Appendix 4. Where there was no response from an organisation, the rating has continued to be calculated from their publicly available information such as websites.

This is an outstanding response to the first survey of its kind. The reaction from a very high proportion of banking institutions has been positive and encouraging, even from those with a relatively low rating. Many have seen the potential benefits for the industry of the approach taken.

There has been a considerable number of product improvements in the last year, when compared with the previous report. Saffron Building Society (better feedback on reaching savings goal), Barclaycard (alerts and other improvements), Lloyds Bank (money manager on current account) and Thinkbanking (non-debt current account with sophisticated payment forecasting) are rated highest. Many banking institutions gave information on their plans. It will be fascinating to see how much more innovation in the interests of customers will occur.

The response to our initiatives shows that the personal financial services market recognises the place of independent validation in encouraging more responsible products and services. The Fairbanking Foundation therefore intends to use its evidence-based criteria to become an accreditation body, certifying that financial products contain features that are likely to assist customers to manage their money better. A very exciting development is that following the launch of the Fairbanking Mark in November 2010 there are several products going through a rigorous approval process. The first Marks will be granted in June 2011.

Last year, the introduction to our report closed by stating that, "the benefits of having loyal, satisfied customers will make this approach a successful strategy".[1] The high level of subsequent engagement from the banking industry demonstrates that at least some banking institutions are aligning customer well-being and long-term profitability. These represent "green shoots" of healthier financial products within banking institutions. The Fairbanking Foundation will continue to use its research-based approach to feed these green shoots. It will leave the task of reprimanding institutions to regulators, consumer lobbying organisations and journalists. Let us hope that the greater priority given to the well-being of customers is such that the culture of retail banking over the next five years is unrecognisable when compared to that of the previous decade.

1 Fairbanking Ratings: socially useful banking (2010)

2. Overall results – an improving trend

The evidence in this report is that many retail banking institutions are finally "getting it". A key part of their purpose is to help people manage their money better, and they are now starting to embrace this goal. This is a critical development as the financial well-being of most bank customers will be improved by giving them a greater sense of control, whether this is day-to-day or in longer-term financial planning (see Appendix 1). **Some bankers will argue that this has always been the purpose of their bank. But we cannot ignore the innumerable situations where financial products have increased worry and caused financial strain for the customer, while producing short-term profit for the bank. The customer should expect his or her banker to be honest, just and straightforward; i.e. fair. The test of fairness is that, overall, a customer's financial well-being or health is better than it would be otherwise thanks to the intervention of the bank.**

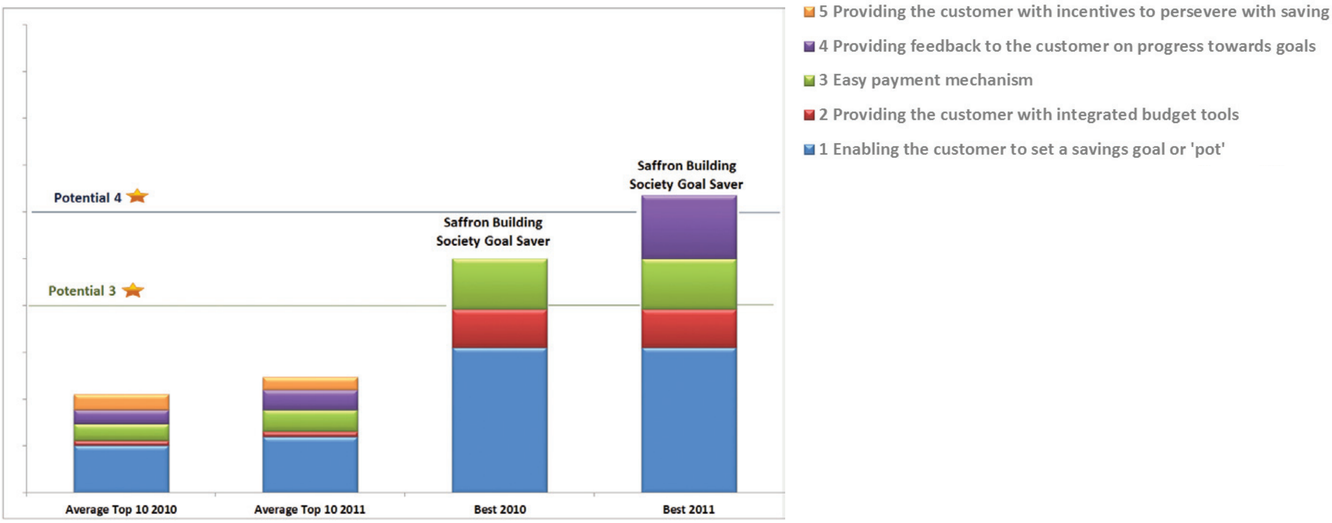
In order to fulfil their purpose of "helping people manage their money" banking institutions have to invest. Other sectors understand this, for instance, drug companies routinely make huge investments, ultimately for the purpose of improving the health of the customer. Investment goes into developing a product to ensure that it achieves the desired health outcome - and then through trials and other testing, it is declared fit for purpose. There may be side effects, which are highlighted, in order that medical professionals can advise on the most appropriate treatment. In a parallel strand of our work, The Fairbanking Foundation - through the Fairbanking Mark - is attempting to provide an evidence base of where sufficient development and testing of products/services has occurred. The Fairbanking Mark highlights to customers that there is little possibility of detriment from a particular product.

Figure 1 shows that investments have been made during the last year to upgrade the three key products of regular savings, current accounts and credit cards. The chart highlights that in all cases, the premier product has improved and that there has been a general move in the right direction, with the average of the top 10 products improving as well. The charts inside the report contain every banking institution that achieved any score under the Fairbanking rating system. It is for the reader to judge whether the combined investment by the banking industry in this area is sufficient, and whether the number of banking institutions represented is too low. We want to encourage those institutions that are already moving in this direction to do more, and encourage other institutions to join them.

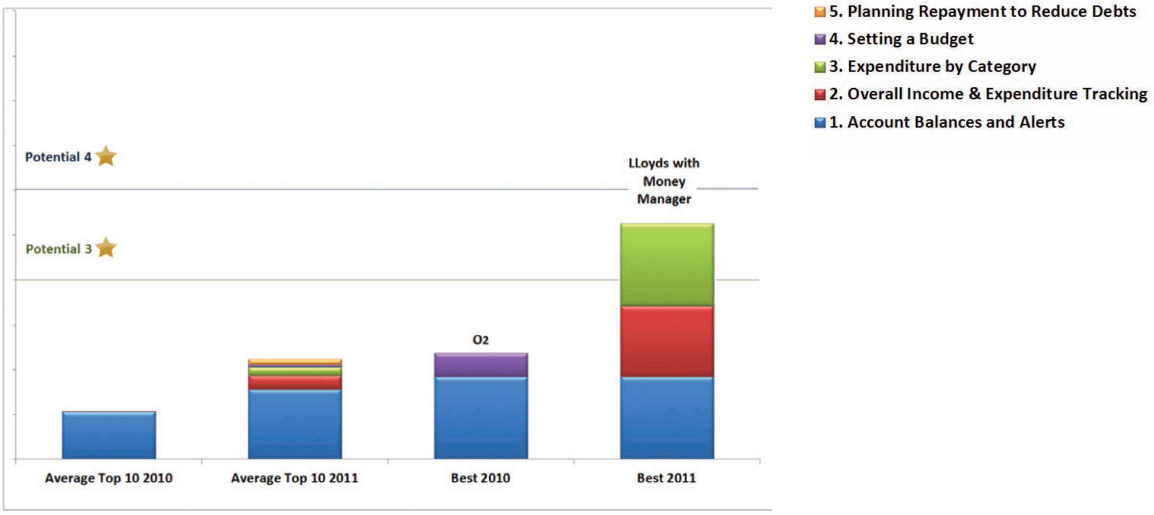
It is not easy to develop new "fair" products; it requires effort and investment. The banker needs a good understanding of financial behaviour, because there are many barriers that customers need to overcome - including procrastinating over important financial decisions or using inaccurate mental accounting to build up debt and savings simultaneously. It is not sufficient to provide information in order to financially educate a customer; it is necessary to provide other "nudges" that will lead to behaviour change. In the products that are highlighted there are examples of financial behaviour being affected by goal-setting, changing norms, defaults, salient feedback, incentives, commitment and emotional pushes. Either individually or in combination when included in products, there can be a significant impact on the behaviour of customers (see Appendix 3 for specific examples).

Figure 1: Summary results for Savings, Current Accounts and Credit Cards

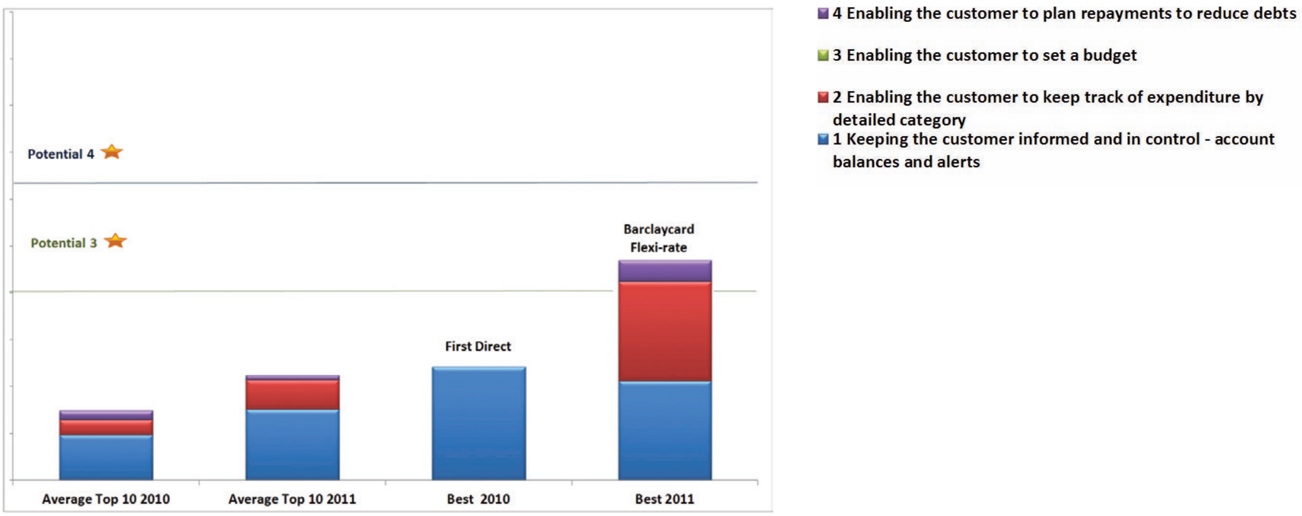
Regular saving products



Current accounts



Credit Cards



thefairbanking foundation™

In banking institutions, there are often long lead times for product development, particularly for large banks and building societies. This means that when the new product or feature is launched, the improvements can cause the rating to leapfrog other products. Unfortunately, it can also mean that it is difficult for smaller incremental enhancements that improve financial well-being to get priority against more obvious purely profit-motivated developments. Smaller banks, building societies and credit unions are more able to do these changes, monitor the effect on customer behaviour and fine-tune the product. Larger institutions that want to improve the behavioural benefits of their products will need to consider priorities carefully.

There were two main criticisms of our efforts from banking institutions being surveyed: that the rating focuses on product, not service or relationship, and that rated features are not relevant to the specific customer base. Being able to evaluate the relative position of service or relationship banking in the context of long-term financial well-being is currently impossible. It is important that one gets good service when buying or maintaining a car, but this is a completely different issue from whether a car has been fitted with an air bag or effective seat belt. Another argument advanced by a bank is that we are "keen to lend responsibly in the first instance". Most bankers will make this point. But for the customer to achieve financial well-being, he or she needs a sense of control over the debt from the moment it is granted, i.e. how to repay. Unfortunately, banking institutions do not care which customers run into difficulty provided there are not too many of them. For many customers, on the other hand, over-borrowing is a personal disaster. It is not sufficient to lend responsibly; the customer needs help to borrow responsibly - especially in the context of overdrafts and credit cards.

The criticism from another banking institution was that the specific factors included in our rating do not appeal to its customers. This could be valid. However, the financial position of customers changes through time. A key driver of financial well-being is a sense of being in control, so that a customer can react to change. Even relatively affluent customers may want a greater sense of control. As a result, to include these features, for example, in a credit card for relatively affluent customers may still be well-received.

Sadly, two product managers made comments that we were requesting feedback on specific product features that did not exist anywhere in the market, when this was clearly not the case, based on the report for 2010. Fortunately, this problem was not widespread otherwise there would be little hope for innovation.

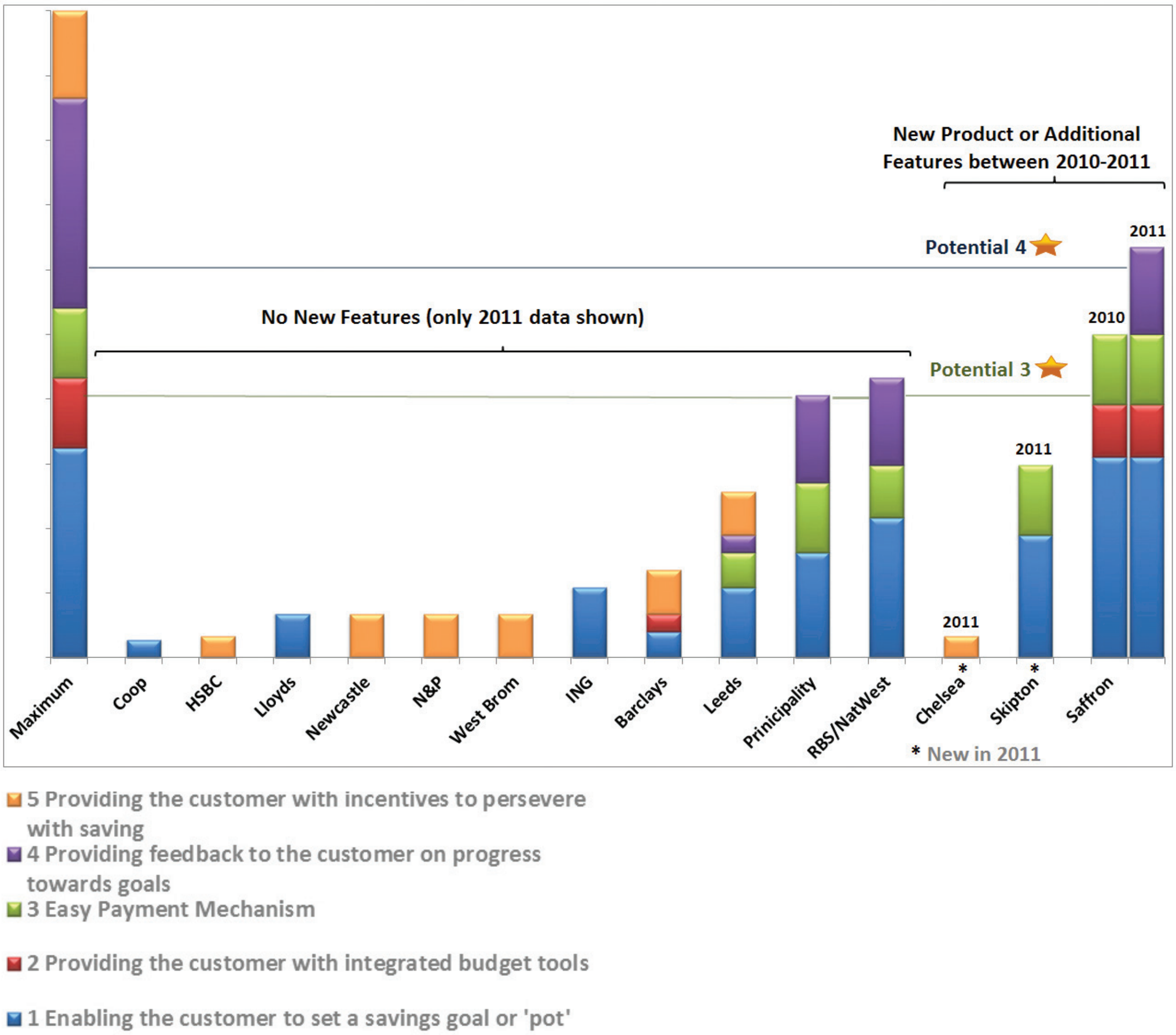
There is little publicly available research evidence on the behavioural effects of specific banking products. However, there are a few positive examples, such as goal-related savings and the use of text alerts on credit cards and current accounts. Cynics will question why banks include these features when there is no immediate profit benefit. The Fairbanking Foundation considers that the demand for products with these features will take a leading position in retail banking and is working with banking product providers to identify, rate and accredit the features that research shows customers need. The result will be highlighted to customers primarily by the banking products providers. The investment on the part of the banking institution will become all the more worthwhile.Almost all features reported by banks in the survey were included in our rating. Some banks self-scored on features without providing evidence, which made assessment more complicated. Some institutions make the benefits of their products and services clear in their product information, but for many it is extremely difficult to identify the features designed to help customers. It is as if the banking equivalents of seat belts, air bags and even good brakes are not valued by the producer. Maybe many banking institutions do not believe customers would value these features, even if they were well designed and effective.

It was encouraging that many banks were prepared to disclose specific or high-level plans in this area. Some large banks were in this category and the genuine desire to show that they were working to improve products in the interests of customers is encouraging. By contrast, some did argue "commercial sensitivity", although this is rather hard to understand in this context. Research and development to make products that enable customers to meet financial objectives should be encouraged.

3. Regular Savings Products

The products of 14 banking institutions feature on the chart for 2011 (Figure 2), compared with only two in 2010. Some of the developments are new in the last year and many have been "discovered" through the survey.

Figure 2: Ranking of all regular savings products



For regular savings, the specific aspect of financial well-being on which the charity focuses is the ability of customers to deal with a change in circumstances and to save for specific reasons. This was identified statistically in work undertaken on what would lead to a household having greater satisfaction with its financial circumstances.[2] The rating is based on features that are known to make it more likely that a customer will manage to save up for a specific purpose or to create a "rainy-day" fund. Given that interest rates are low, it is the consistent payment into an account of a regular amount that will generate the sum needed for a holiday, wedding or car. The features are grouped into setting a goal, budgeting to identify saving opportunities, easily setting up a regular payment, providing feedback and having incentives to continue or not to use the money for other purposes. Ideally the rainy-day fund would include encouragement to rebuild it if it has had to be drawn upon. (See Appendix 2 for the questionnaire).

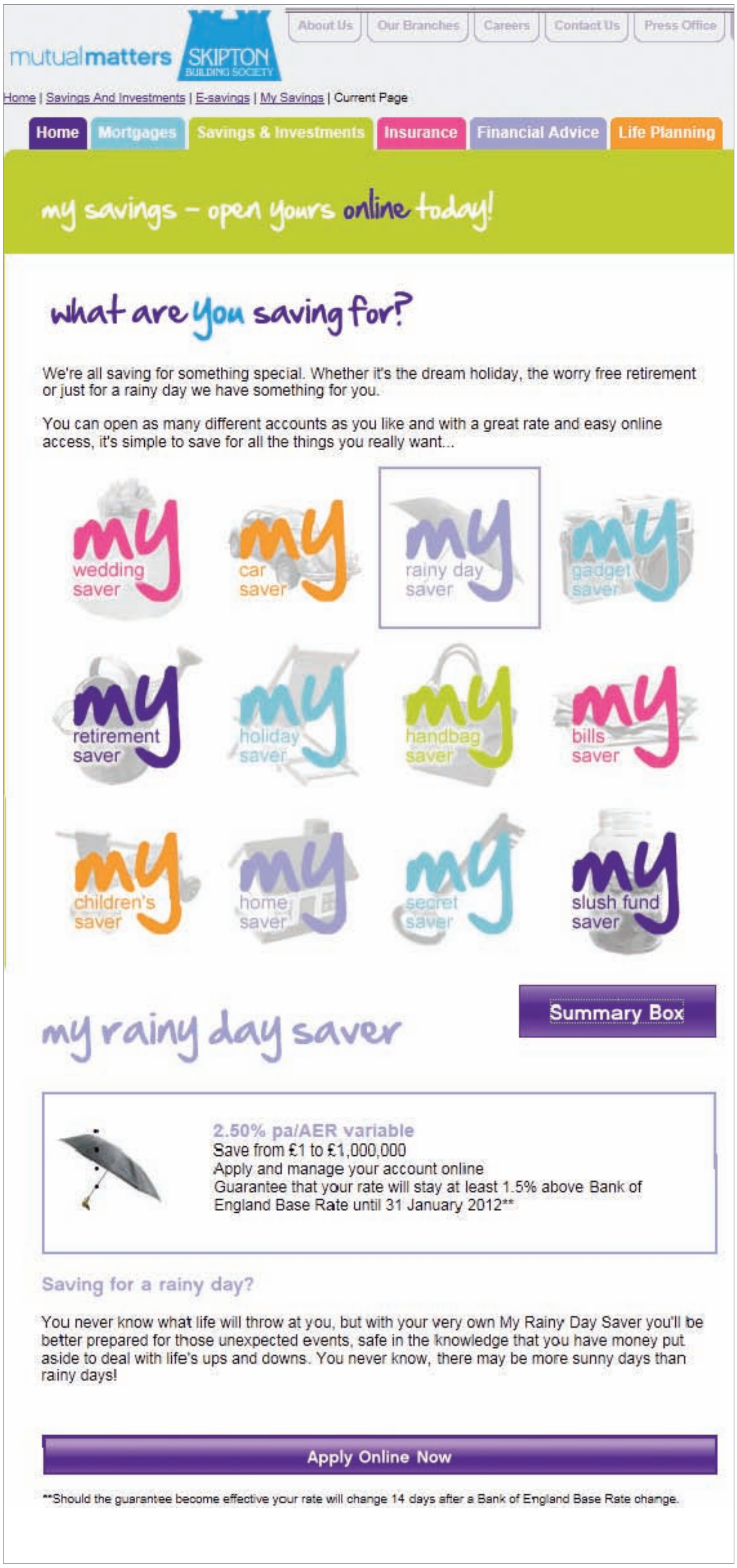
2 "Fair banking: the road to redemption for UK banks (2009), Centre for the Study of Financial Innovation

The Saffron Building Society ('Saffron') stretched its lead with its "Goal Saver" product. It is designed to create and encourage a sense of well-being as a result of the decisions taken by the customer. Goals can be created for different purposes and personalised by the customer. A 'slider' mechanism enables customers to calculate a combination of existing savings and regular saving to achieve a desired total. It is also straightforward to set up regular payments. In the last year, Saffron has established two new products to encourage saving for a wedding and for a car. These include enhanced features to give good barometer-style feedback on progress towards the goal and being able to include photographs. The facility to break down the overall budget into individual components of the wedding is liked by couples who can use this to identify which items will be extravagant and those where they will exercise more restraint. Information is provided on the average cost of the components of a wedding, which may have some effect on the behaviour of those who use the tool. In March 2011, Saffron launched an upgraded version of Goal Saver, which makes the feedback available on any goal that has been chosen by the customer. Further plans include more tools, more specific goal products and improved customer communication via e-mail to encourage customers to achieve their savings objective.

Figure 3 Saffron Goal Saver – wedding version

RBS/Natwest has a similar product, albeit with fewer features, which has not been improved in the last year, although plans remain in place to do so. It is particularly strong in providing feedback to the customer on how well a goal is being met. It has had a large take-up, which is an indication of customer support for products that encourage and organise savings behaviour. It leads the customer towards regular saving into an existing account, or setting up a new account chosen from those available.

Figure 4: Skipton Building Society – ideas for goals/"rainy day saver" example



thefairbanking foundation

The Skipton Building Society has launched an account that is prefaced by ideas for setting goals.,encouraging customers to think about what they could save for. There are 12 ideas for savings pots; "rainy day" is illustrated here. Some of the pots are not designated for a specific purpose e.g. 'slush fund'. From other research, it is known that these are popular with customers and for many it is important to have a sum put aside in case of emergencies or a change in ircumstances. Another example, ING (Direct Savings Account), encourages customers to set up accounts for different purposes. ING advised in the survey that their customers' priority was "ease of use" and "unlimited withdrawals". However, there is a lot of academic evidence that unlimited withdrawals on a regular saving account can be a disadvantage; the customer may want a deterrent to stop him or her from using the account for another purpose e.g. dipping into holiday savings.

Principality Building Society (e-saver) and Leeds Building Society (Family + Account) each have innovative, but different products suitable for regular savings that have features to deter running down those savings. The Principality allows the setting up of five pots. Money is paid into one of these pots ("the default pot"), but can easily be moved on-line between them. The Leeds account is a branch or telephone account, which allows pots with notice periods for withdrawal. The incentive is a higher interest rate for different notice periods. The concept is that you are gradually locking away the money until a time in the future when it will be needed. For example, saving for a holiday when the money will not be needed for a year. The evidence from Leeds is that customers are still using the account as proposed, but the interest rates offered are not particularly attractive, which will deter some customers.

Figure 5: Leeds Building Society – Family + Account

Barclays Bank has an intriguing tool called a 'little extras' calculator that is designed to help customers identify where they could make savings, e.g. pub, smoking, gym membership - and then to use those savings for another purpose e.g. car or holiday (see Figure 6). This tool looks very good, but does it change the behaviour of customers? If research shows it to be highly effective and if it was more integrated with specific products, it would receive a higher rating.

Figure 6: Barclays Bank – 'Little extras' calculator

At Lloyds, the "Savvy Savings Tool" helps work out the combinations of a lump sum already saved and regular additional savings needed in order to reach a goal. It looks as if it would be useful, but a customer would have to search it out, rather than it being an expectation (default setting) within a regular savings product. Similarly, the Co-operative Bank has a savings calculator that helps a customer work out how long it would take to save up a certain sum. A second page gives ideas as to how the savings could be used. Again, it is not integrated into the savings account, and it is not clear whether either the budget planner or ideas pages would significantly motivate customers to save. Indeed, at the time of publishing, this tool appeared on its Goodwithmoney tab, but not on the bank's savings section. If these tools were effective they should be heavily promoted. But it is possible that they are not well-designed. Are the banks that are developing these tools also conducting research to see how the behaviour of customers is being affected?

Barclays (Monthly Savings), Newcastle (Monthly Saver), Norwich & Peterborough (Regular Saver) and West Bromwich (Monthly Saver) all have accounts that they regard as incorporating incentives to encourage regular saving. The Barclays account pays a lower rate on any month where a withdrawal is made. This represents a penalty if a "rainy day" occurs; but is a disincentive to use the funds for another purpose unless absolutely necessary. All the three building society accounts are variations on paying a bonus for making either 10, 11 or 12 monthly payments over a year and a range of withdrawal criteria, such as no more than one in a year. Academic literature [3] indicates that this can make a significant difference to behaviour. Norwich and Peterborough point out that this is one of their most popular savings accounts. It is clearly presented in the publicity material and the rate is relatively high even without the bonus. One bank had an incentive of just 0.03 percentage point on a relatively low interest rate, which was not included in the chart as it was unlikely to provide any genuine incentive. It would be of interest to know whether such an account generated larger amounts of saving than other accounts without the "incentive".

Chelsea Building Society (E-saver) and HSBC (Online bonus saver) have accounts that pay a bonus on any month where a withdrawal has not been made. This should be an incentive not to withdraw, but it does not contain a positive incentive to make regular savings.

The industry has plans for regular savings

There were many positive responses to the question in the survey regarding plans:

Saffron Building Society – is going to improve user experience, have more tools and instigate customer communication to encourage saving behaviour.

Skipton Building Society - is planning an "interactive calculator", a contact strategy related to the goals set and the use of social media. This is following on from specific customer research.

Principality Building Society – following extensive research, is intending to provide enhanced functionality with tools to improve the savings experience at the core of the project.

ING – is seeking to improve products for customers by adding tools to track savings progress, set and visualise goals.

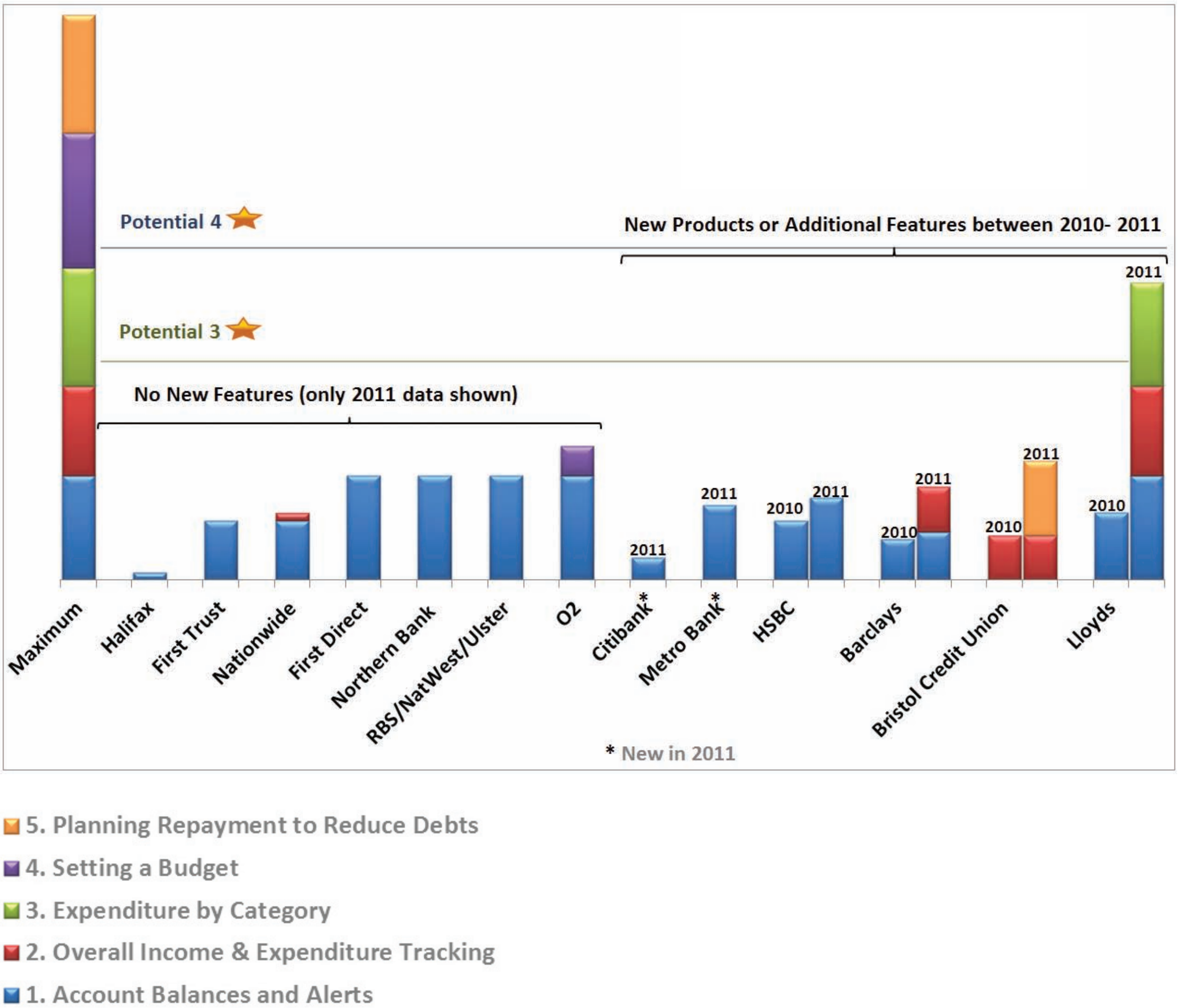
This is a very encouraging response given that companies are not required to disclose their intentions in this area. There is no regulatory or other pressure to invest in these developments. As already described, developments of this type take time to research and deliver. However, when implemented, there can be significant leaps forward in a short period. The conclusion on savings is "watch this space"; bankers are developing more skills in helping customers save.

3 Elliott, A., Dolan, P., Vlaev, I., Adrainenssens, C., Metcalfe, R. (2010) Transforming Finacial Behaviour: developing interventions that build financial capability. Consumer Financial Education Body.

4. Current accounts

Modest improvements have been made to enable current accounts to assist customers with managing their money. The notable exception is the launch of the Lloyds Money Manager in February 2011. Other improvements illustrated in Figure 7 relate to the more widespread availability of text messages and alerts.

Figure 7: Current Accounts – all rated current accounts in the UK



The launch of the new money manager tool by Lloyds TSB has altered the standard for what could be achieved through a current account. It was launched in February 2011, shortly before this report was finalised. Illustrated in Figure 8, it allows customers to see a breakdown over time of expenditure by category. It is straightforward to assign expenditure to new categories created by the customer. The drill down capability enables customers to identify how money has been spent.

Figure 8: Lloyds Bank Money Manager – categorising expenditure

thefairbanking foundation™

Figure 9 illustrates that it possible to drill down into an individual category and easily identify the individual items. In addition, it shows the average expenditure spent on the category and a monthly comparison.

Figure 9: Lloyds Bank Money Manager – identifying specific expenditure and monthly feedback

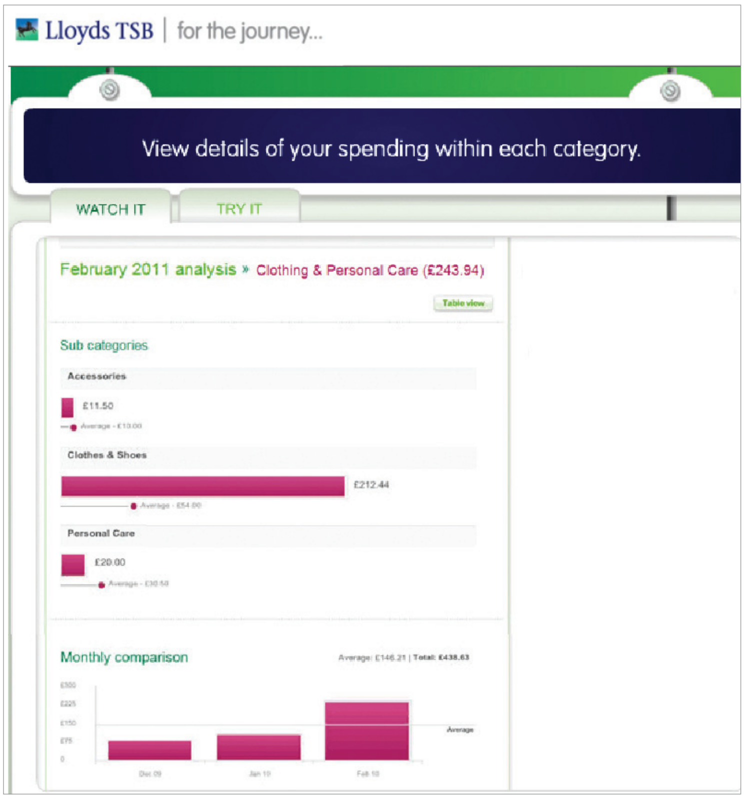


Figure 10 illustrates a diary system to identify forthcoming income and expenditure in order enable some planning. The idea is that by knowing when regular payments are leaving the account it would be easier to detect financial problems, in particular the likelihood of going into overdraft. It is likely that this facility will have the effect of enabling customers to adjust to a change of circumstances, one of the core requirements of financial well-being for some population segments.

Figure 10: Lloyds Bank Money Manager – planning future income and payments

Overall, the Lloyds Bank Money Manager represents a step change in enabling customers to be in control of their expenditure. It is too early to tell whether this will transform the ability of customers to control their money. As importantly, has it been designed to appeal to those that most need the help. Hopefully, Lloyds Bank will divulge more about the response to the product for the good of banking customers generally.

The O2 Cash Manager was fully covered in the report for 2010. It is not a full current account as it does not have all the necessary functions, such as direct debits and standing orders. However, when used in conjunction with most current accounts it significantly improves the level of control. Customers can load the Cash Manager card from a current account and will receive a text message advising them of the remaining balance each time it is used. The card is ideal for discretionary expenditures or for a specific category such as ensuring money to pay for petrol is put aside. Its declining balance works in the opposite way to a credit card and there is no scope for an unwanted overdraft. Although overtaken by Lloyds Money Manager, it remains a very useful product for many.

Text messages – There have been a number of developments in this area. Lloyds TSB has decided to remove the charge it was making for the service. First Direct has announced that it will make a charge from the end of 2011. It is a small charge, but it may deter new customers from taking up the service. Maybe it would be better to offer the first six months free and see if customers are finding it sufficiently helpful to pay.

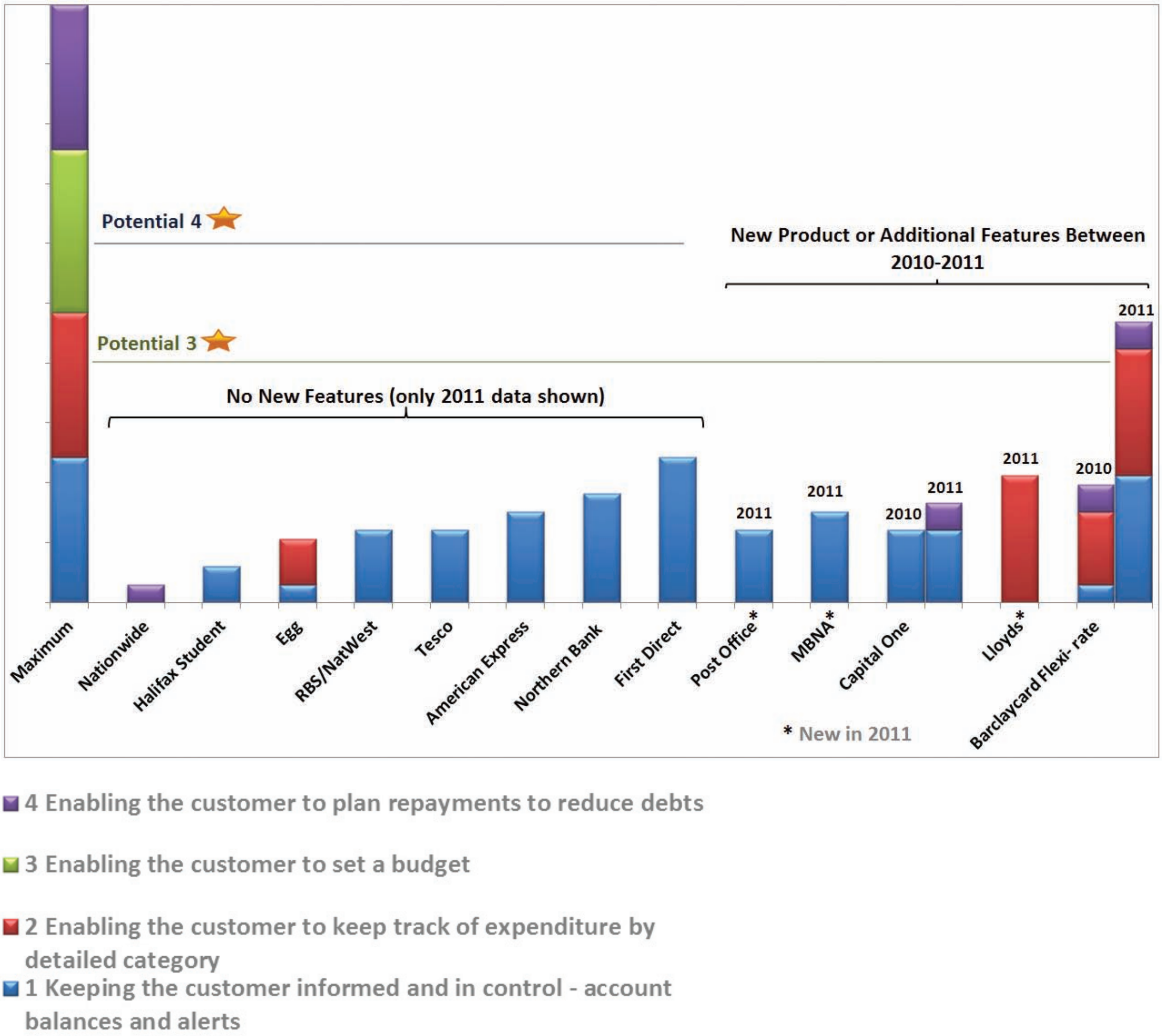
First Direct has been co-operative with the survey by disclosing some customer feedback. Customer responses include such comments as the text statement "helps me keep track of my spending", to feel "in control, no surprises" and offers "peace of mind". The alert feedback includes "it's a red flag" and "means you can run an account close to the wind". In addition, it gave a sense for customers that they can "keep in touch" and have a "safety net". This confirms the point that the bank is giving salient feedback, which customers describe as "comes to you", "convenient", "an extra eye", a "prompt" and a "trigger". This strongly indicates that behaviour change results from the text messages - and therefore that a greater sense of financial well-being is generated.

Fees and charges – although these do not form part of the rating, in the course of analysing each product, a record was kept of current fees. Although the interest rate is part of the "summary box", this is not necessarily the case for fees and charges. For many banks, it was extremely difficult to identify fees and charges on the web site. A banking institution that was serious about using fees to reduce the likelihood of being overdrawn or of having a returned item would make these fees clearer. It is the fees and charges that are the major reason why it would be difficult for The Fairbanking Foundation to grant a mark to a current account. The unpredictable nature of some of the charges means that they are at odds with enabling the customer to have a sense of control.

5. Credit cards

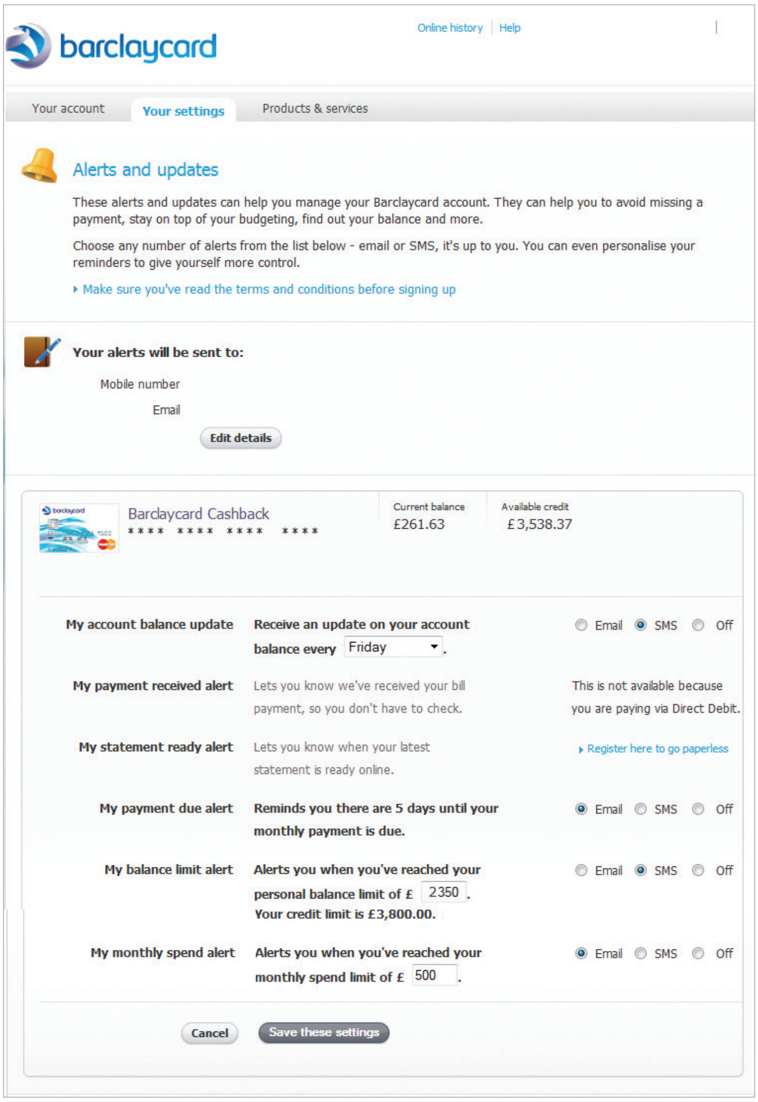
Figure 11 shows that there have been relatively few developments in the last year - with the exception of Barclaycard. Text alerts is the main development from a number of credit card companies.

Figure 11: Credit Cards – all rated cards in UK



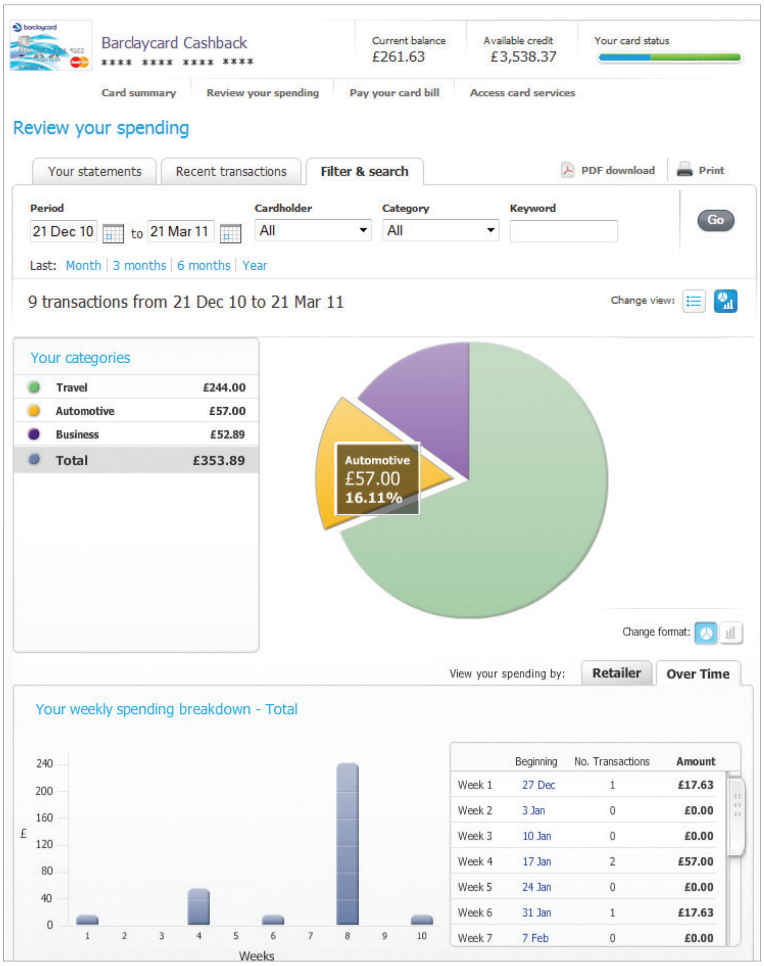
First Direct had the most features of any credit card in 2010. Barclaycard has improved further in 2011 to the point that it is rated significantly better. It has introduced six different types of text alert, such as, if the account reaches an amount set by the customer and a reminder to make the monthly payment (Figure 12).

Figure 12: Alerts and balance enquiries on Barclaycard



In addition, it has improved the mybarclaycard site so that it is easier to see spending by category, such as petrol or eating out by week for up to a year. The mybarclaycard site appears to be much easier to use. For example, customers can easily establish new categories to identify how much is being spent on the card and view weekly expenditure by category for a period up to 12 months. (Figure 13).

Figure 13: Barclaycard expenditure categorisation



With such a useful site, it would be good to know how customers' behaviour was being affected and whether their sense of control had improved. The next step would be to help some customers have a budget and be able to alert themselves by category if they were reaching the budget for the month, e.g. for eating out. The Flexi-rate card was highlighted last year as giving the incentive of a lower interest rate to customers paying off more than the minimum repayment.

Lloyds Money Manager is available on the credit card and the expenditure categories can be aggregated with the current account.

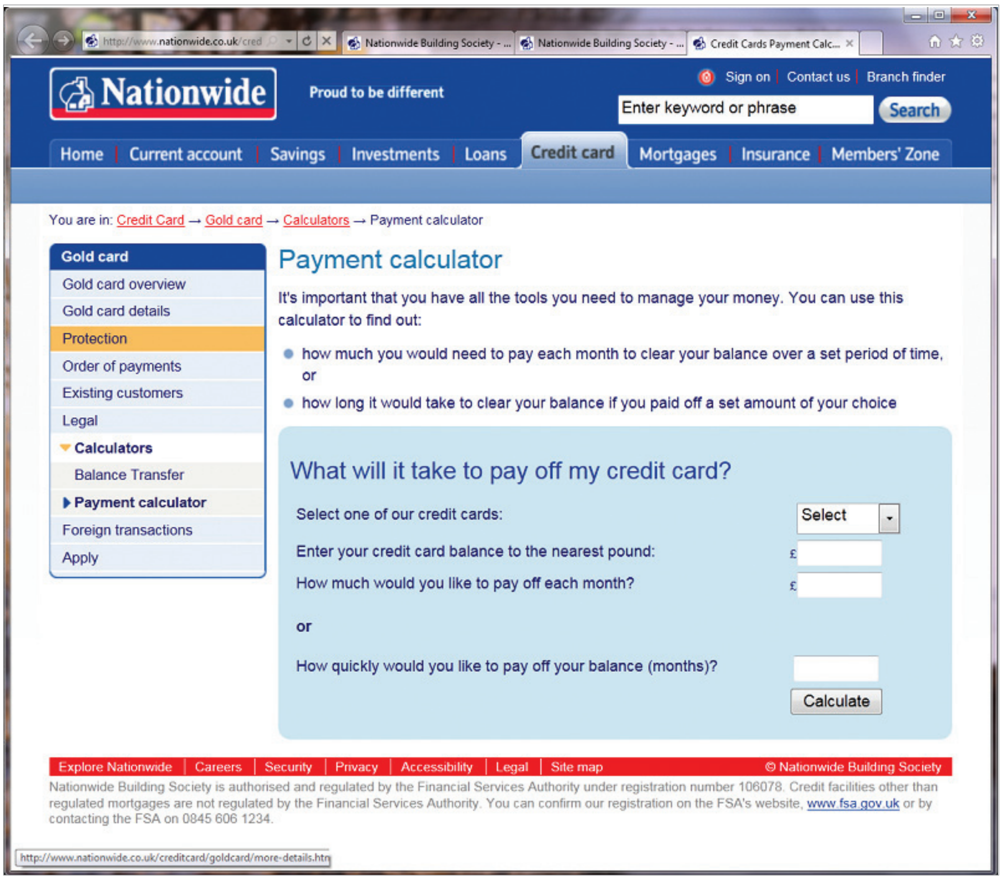
Capital One has introduced e-mail alerts and a card (Progress), with the incentive that the interest rate reduces if you make the minimum payment on time and do not exceed the limit. The rate reduces by 2 percentage points every 6 months for 3 years. The card should be useful for those that are not able to obtain a credit card at a lower rate due to relatively poor credit history. Capital One informed us that the target customers value the "reward of an interest rate reduction for responsible behaviour".

MBNA has set up text messaging of balances, mini-statement and a payment reminder, joining Amex in terms of messaging functions.

The Post Office credit card rating has reduced slightly. Last year they had a feature that allowed customers to purchase two substantial items and pay for them over a set period of time at a low fixed rate of interest. They claim that customers were not taking up the facility, and it has been removed.

Nationwide has a payment calculator (Figure 14), which is an easy way of calculating the amount needed to pay off a credit card. It is illustrated below because it is the only UK example of a credit card supplier helping customers repay.

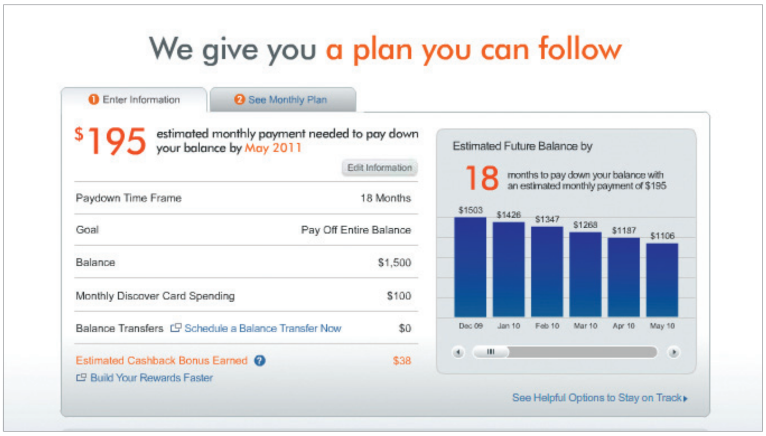
Figure 14: Nationwide Building Society – payment calculator



In last year's report, the "Paydown Planner" of the Discover Card in the US was highlighted. It is integrated with the customer's credit card payment history and resulting in a clear plan (Figure 15). Nothing comparable has appeared in the UK as yet.

Figure 15: Discover credit card, US –

A plan is developed with integrated feedback so as to encourage customer to "Stay on Track"



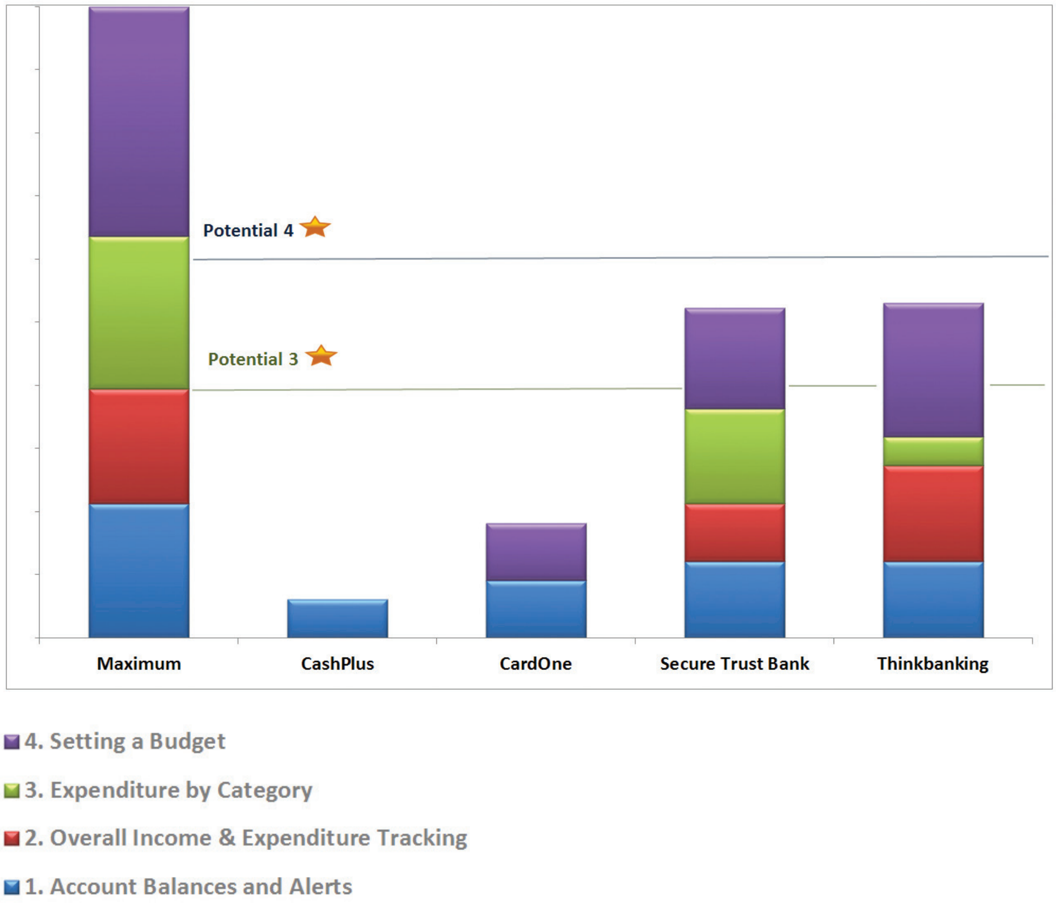
6. Non-debt current accounts

This is a new category of current account for the report to consider. The definition of the account is that in addition to having no overdraft, it can pay standing orders and direct debits. It will charge a fee to cover the costs, but it does not incur the uncertainty of charges from bouncing payments. The anxiety caused by these charges for the type of customer that does not want (or cannot get) an account with an overdraft is irreconcilable with financial well-being. At present, these charges - applied by many basic bank accounts that are 'free' - can accrue significantly. Further research would be required to identify at what level the fee is an incentive for customers' behaviour to change, so that they exercise more control. For this reason, Fairbanking has found it too difficult from the survey responses to rate "free" basic bank accounts based on money management criteria.

In its report entitled "Inclusive Banking" (March 2010), Barclays Bank made available research into its Cash Account for customers on low income or benefits. It is noteworthy that 50% of the customers are described as "compulsive money managers", and a further 20% have been told by the benefits agencies to open an account from a limited list. It is the remaining 30% of "no choicers" that could benefit particularly from the account features. However, the overall take-up of most features is very low - for example, direct debits (47%). Barclays has committed to encourage usage and hopes to make available features to all account holders on-line.

4 Elliott, A. (2005) Not waving but drowning: overindebtedness by misjudgement. Centre for the Study of Financial Innovation.

Figure 16: No Debt Current Accounts



The accounts identified in Figure 16 are not directly comparable with a free "basic" bank account. Despite a monthly charge on the rated accounts of between £12.50 and £14.50, it is likely that many people who find it challenging to manage their money would benefit from using the service provided. An analogy would be that these accounts are like cars with speed limiters. The limiting device makes it much less likely that the person will have an accident. Indeed, it may make the financial journey more comfortable for the driver and the rest of the family. The fee is an obstacle to having these accounts for households on low incomes, but as has been shown from previous research, money management challenges are often present in relatively affluent households.[4]

The accounts would be too prescriptive for some people, but for many, this is just what they need. They are likely to have a lasting effect on financial behaviour. Three of these accounts use a ring-fencing principle to separate bills from discretionary expenditure. Bills are paid from an account, and discretionary expenditure is paid from a card, which is loaded from the bill account. The manner of account set-up uses a default arrangement whereby the customer is led through bill payments to ensure that these are captured on the system. An algorithm is used to automatically put an amount of money on the card when incoming payments arrive, while leaving sufficient on the account to pay forthcoming bills. The customer is making a commitment to pay these bills first.

The highest rated of these accounts is provided by Thinkbanking. This was included in the report of 2010, but along with Secure Trust Bank, it was accorded too low a rating. The full range of features was difficult to understand from the publicly available information. This was an example of where the survey has benefited understanding of how an account operates. The accounts have been improved in the last year.

Figure 17: Thinkbanking – the personal Money Manager

A key feature of these accounts is that they ring-fence the bills pot, which increases the likelihood that customers will not use it for another purpose. Although a customer can decide to spend from the account, such that there is insufficient to pay bills, barriers are put in the way. A process is created whereby the expectation is that the customer will not take money from the account if it will leave a shortfall. Customers find this barrier and the support from a money manager (see Figure 17) helpful in avoiding the temptation of using money intended to pay important bills, such as rent and utilities. The Secure Trust Bank website contains a short film to demonstrate the benefit of splitting your money between a bill pot (named "account") and a discretionary spending pot (named "card").

Thinkbanking has developed an approach that involves forecasting forward all bills and pro-actively contacting customers who appear to have insufficient income to cover those bills. This service involves a lot of customer contact.

Secure Trust Bank has developed a statement to advise customers of the overall income and payments going from the two "pots", showing the amount that was left at the end of the month with a comparison with the previous month. In addition, the statement gives a breakdown of key categories such as eating out (Figure 18).

Figure 18: Secure Trust Bank –statement for prepay current account

Secure Trust Bank
Simple, straightforward banking

It's always nice to know at a glance what you're spending and where. That's why we've introduced our 'at a glance' summary showing exactly this so you'll always know where your money's going and what's more how it compares to last month.

E00100

00004
Mr A Sample
125 Sample Street
Sample Area
Sampleshire
AB1 2CD

22nd March 2011

'At a Glance' Monthly Spending Summary for 235451 09999999

Account spending summary (inc. card)	February 2011	January 2011
ACCOUNT		
Payments in	£1104.40	£1174.72
Rewards earned	£6.37	£0.00
Direct debits	(£165.52)	(£163.06)
Standing orders	(£200.00)	(£200.00)
CARD		
Card purchases	(£298.70)	(£312.48)
Cash withdrawals	(£470.00)	(£410.00)
OTHER		
Other payments *(Account fees, new card fees, disputed transactions/refunds, etc.)*	(£21.10)	(£19.10)
MONTHLY PAYMENTS IN, LESS MONTHLY PAYMENTS OUT *	**(£44.55)**	**£70.08**

** Figures represent deposits/spending for current month. Negative figures do not represent overdrawn balance on account. A negative sum can occur when spend is greater than deposits in that month, but do not include monies carried forward from previous months.*

Card spend summary	February 2011	January 2011
Supermarkets	(£19.14)	(£18.69)
Eating out	(£6.88)	(£29.31)
Fashion & sportwear	£0.00	£0.00
DIY and gardening	(£34.76)	(£29.72)
Motoring	£0.00	£0.00
CD's, DVD's and books	£0.00	£0.00
Electronics	(£2.75)	£0.00
General shopping	£0.00	£0.00
Other card payments	(£235.17)	(£234.76)
Cash withdrawals	(£470.00)	(£410.00)
TOTAL CARD SPEND	**(£768.70)**	**(£722.48)**

Key:
Amounts in black and without brackets show money coming into your account, e.g. £100.00
Amounts in red with brackets show money going out of your account, e.g. (£100.00)

Please note: This is **NOT** a statement and does not represent the balance held in your Account. It is designed to show your spending for the month, compared to the previous month so that you can see, at a glance, where and how you spend your money.

At Secure Trust Bank we're always keen to know your thoughts. Please let us have your feedback at ataglance@securetrustbank.co.uk

Secure Trust Bank plc Registered in England and Wales No: 541132. Registered Office: One Arleston Way, Solihull, West Midlands B90 4LH. Authorised and regulated by the Financial Services Authority.

In terms of future plans, a number of organisations have shared their development plans. CardOne plans to introduce budgeting tools, providing further segments beyond the current 'jam jar' for bills. In addition, it plans to provide pictorial representations of spending. Other enhancements will be to offer savings in the form of "club" accounts - holiday/Christmas club, as further jam jars for savings. Secure Trust Bank is looking to implement budgeting functionality by providing another 'pot' to the account that will be a single bill payment service. Customers will be able to pay a single monthly fee and Secure Trust Bank will manage the peaks and troughs of bill payments helping customers pay a regular predictable amount each month. Both Secure Trust and Thinkbanking are looking to achieve a higher rating in the next 12-24 months.

7. Credit Unions – regular savings and current accounts

The Association of British Credit Unions (ABCUL) assisted with the following comments that give a general idea of the features in regular savings and current accounts.

Regular savings are a core product of the credit union movement. There are many examples of holiday and Christmas savings accounts. For example, one Christmas account may only allow withdrawals between 1st October and 31st January to reduce temptations. A holiday account may allow the customer to specify a withdrawal date in the future, but require notice to be given if withdrawal is to take place at any other time; again to reduce temptation. Many CU's assist with budgeting by a payment posting process that pays incoming money automatically to a variety of accounts (e.g. £100 of benefits received, £15 goes to loan repayment, £10 goes to the Christmas savings account, £5 goes to holiday fund, £5 goes to the child's savings account and the balance goes to the instant access share account). Some systems allow for different processing for different payments e.g. child benefit and income support. There are examples of incentives with Co-op vouchers offered on Christmas savings accounts. Some CU's work in conjunction with employers to enable payments direct from salary into a savings account. Nottingham Credit Union describes the stress reduction and potential improvement in "financial well-being" that could result from saving for many purposes when encouraging employees and employers to utilise its payroll savings.

Current accounts are offered by many credit unions and a small survey (20 sent and 7 completed) was conducted to get a sense of the features being offered for accounts with and without overdrafts. There were a small number of accounts that offered alerts (e.g. Whiterose and Castle & Minster). The account that stood out was from Bristol Credit Union, which has been included among other bank accounts rated.

This account offers a number of features that score highly, and the overdraft is described as not "traditional". This appears to mean that you get all the benefits of having a line of credit in case of running out of money at the end of the month, without the problems of penalties and not having a repayment schedule. Members can set up a Current Account Plus. This provides a revolving credit limit to help manage expenditure, but unlike an overdraft it has a defined repayment plan which would always clear the maximum balance within 3 years (assuming no additional drawdowns). Repayments are set at a frequency of member's choice to suit income frequency. Everyone pays a weekly fee (£1.20) for any week when there is a debit transaction on the account. The charge for a bounced item is £6, but there is close monitoring to ensure that contact is made with clients so that regular payments may be cancelled rather than incur the fee.

In response to questions about its plans, Bristol Credit Union replied that "improvements can be made immediately to the way we produce and show information for members - the ideas suggested in this survey will help us think about how we can do this". It is currently working on full internet banking functionality to include live balances & transactional ability; the website is currently limited to displaying balances and transactions to close of business on the previous day.

8. The Fairbanking Mark

As a result of generous funding, in the last year, a Fairbanking Mark has been designed and trademarked. It is available to retail banking institutions in three, four and five star versions (Figure 19).

Figure 19: The Fairbanking Mark (3 star version)

It is not sufficient to have achieved the star rating contained in this report in order to receive the Mark. The Mark is an accreditation, which in this instance means that the product has been examined to identify whether use of the product will improve the financial well-being of customers.

In order to receive the Fairbanking Mark, the following requirements must be met:

1. ***Rating*** – the product/service must receive a sufficiently high rating to achieve a 3 star rating or better.
2. ***Customer survey*** – independent research is undertaken into whether the product features receiving the Mark really benefit some customers. This is the equivalent of performing a test to see whether the product is working in practice.
3. ***Fairbanking Culture Factors*** – these vary according to the product, but will always include the following:
    - Complaints – a review of complaint data relevant to the specific product/service.
    - Documentation – review of operational, contractual and marketing documentation to identify whether there are any reasons why the product may not be regarded as "fair" to the customer. A particular issue would be any requirement to buy other products or services.
    - Interest rates and charges – these will need to be clearly communicated to customers. An assessment will be performed as to whether the interest rates and charges look reasonable in comparison with those of other banking institutions. The interest rates and charges should be designed in a way that is in line with behaviour that is in the interests of customers.
4. ***Fairbanking Mark Accreditation Panel*** – the documentation for the granting of the Mark will be presented to a panel of independent experts for their formal review and advice.
5. ***Documentation*** – an agreement is entered into with the banking institution that specifies how the Mark can be used in connection with the product. If the Mark is granted, a charge is made by The Fairbanking Foundation to cover its costs in carrying out the accreditation and granting the mark.

9. Future Plans for The Fairbanking Foundation

The following are research ideas that have been developed to the point where The Fairbanking Foundation would like to take them forward in 2011/12 with partner organisations.

Financial Well-being Research: the initial further research would be similar to that undertaken for young workers and families with young children. The two population groups to be considered are **students** and the **elderly**. It may be possible to incorporate consideration of those with mental disability. The research would identify through quantitative and qualitative study a statistical basis for key determinants of financial well-being. The hypothesis is that control/discipline over money is a key determinant, as it was for the two groups previously examined. However, there are likely to be other factors that are particular to these population groups. The understanding of financial well-being would be used to identify what financial products should contain in order to assist individuals with achieving higher levels of financial well-being. There would be the potential to have an FB Mark for products with features to suit these population groups.

Rainy Day Fund: it is widely understood that a household is better able to cope with deteriorating financial circumstances if money has been put aside. Although this is understood, there is little understanding of how much this should be. Without a study that provides an analytical basis it is difficult to determine how the financial services industry should provide solutions. The study would begin with 2,000 people and aim to find c. 300 experiencing an unexpected life event affecting their finances. Some of these would be interviewed in greater detail to identify the importance and size of a rainy day fund. The research would be used in developing ways of encouraging customers to determine and save for an appropriate level of rainy day money.

Encouraging savings: there are real opportunities to undertake experiments in financial institutions to identify how products can be delivered that help customers reach good financial outcomes. The research would identify whether having a particular feature was encouraging higher levels of savings than similar accounts without the features. There may be scope to test some components through experiments to see which had the most effect on behaviour. The results could be significant in terms of providing evidence.

Penalties: it would be very useful for the purpose of the FB Mark to have some evidence of positive behaviour change. It is possible that knowing a charge will be incurred for going overdrawn will deter some customers from spending. However, a major issue is how large should the charge be in order to have this effect. The hypothesis to be tested is that the charge does not need to be particularly large to affect the behaviour of those for whom it is an issue. If it goes beyond this level the amount charged is a profit-generating activity. These incentives are applied to missed payments and limit excesses on credit cards and on exceeding overdraft limits. They can accumulate to substantial sums. The study would conduct experiments to gauge how the level of penalty affects behaviour.

Appendix 1 - Methodology

1. Financial Well-being Index ('FWI')

Full details of the research methodology for the FWI are contained in the report "Fair banking: the road to redemption for UK banks" (CSFI, July 2009). The factors included in the measure of Financial Well-being derive from a qualitative and quantitative study undertaken in 2008.

Two sections of the population were chosen, both with an annual household income in the range of £15,000 to £60,000:

- Young workers: Aged 18 to 29, they may be single, married or co-habiting, but have no children; and
- Families: Aged 25 to 39, they may be married, co-habiting, separated, widowed or divorced, they have at least one child under 16 years of age living at home.

These are both groups in society where money management is important. Young people as their finances can take a step-change in complexity and families with young children as this is often linked with the pressures of losing one income or moving home.

The quantitative research involved an on-line survey of 654 people conducted between mid-November and early December 2008. Respondents were split equally between young workers and families. The survey took around 30 minutes to complete. The only other criteria for inclusion were that all respondents should have a current account and that there should be approximately equal numbers of men and women.

Regression techniques were used to identify the key factors for the Financial Well-being indices for both young workers and families. Regression analysis is a statistical technique that in this research uses the responses to attitudinal statistically significant drivers of the outcome. In this case, the dependent variable was the response to the question "how satisfied are you with your overall financial circumstances?", with the answer on a seven-point scale.

The key factors driving the Financial Well-being Index contained in the report were as follows:

Factor 1 Assist customers with the ***control of their money;***

Factor 2 Assist customers (particularly younger customers) with ***"thinking of their money in pots for different purposes"***;

Factor 3 Assist customers (particularly families with young children) to adjust their expenditure on non-essentials when life events occur;

Factor 4 Assist customers with having ***plans to reduce debt or increase savings***.

2. Fairbanking Rating Methodology

For each product, key features were identified that were likely to improve the financial well-being of customers if they were used.

Each feature is divided into a number of components. In total there are 20 components contributing to the rating for regular savings and current accounts, 18 for credit cards and 17 for non-debt current accounts. The questionnaires containing the components are in Appendix 2.

Adding the score for each factor arrives at an aggregate score. Some features carry sufficient weight that the overall score is not reduced even if another feature is absent. For example, if a credit card enables the customer to receive an e-mail or text message alert when the balance reaches a certain level, it would not be penalised if it did not have a feature that alerted the customer when it approached the credit limit. The card is putting control in the hands of the customer to establish an alert at any level, which is considered to have a greater potential influence on well-being.

The factors do not carry equal weight; this is the main area of the ratings methodology where there is a subjective element. The relative position of different products is likely to be correct for each feature. However, the precise differentiation requires a level of judgement, as does the combining of features.

The subjective element could be reduced if further research was conducted to identify how financial well-being changed over time as a result of using different features. It will not be possible to remove the subjective element entirely, especially as customers will exhibit different behavioural change dependent on the characteristics of the customer. In addition, customers will choose to use the products differently.

The rating is reduced if the feature has a charge for its use.

All the product ratings have evolved since the previous report. Relatively minor changes were made to the Current Account and Credit Card ratings whilst major changes have been made to the Regular Savings rating. The 2010 Regular Savings rating has been retrospectively adjusted to make sensible comparisons with the 2011 rating. The No Debt Current Account rating is new but is mostly a subset of the Current Account rating without any debt repayment components as getting into debt is not possible on these accounts. It also contains an additional component reflecting particular features of this type of product.

3. Fairbanking Survey Methodology

The 2010 ratings were calculated from publically available data i.e. websites. It became apparent that often Fairbanking features were difficult to find or not publicised at all. For the 2011 ratings a more sophisticated inclusive approach was developed. In partnership with the Z/Yen Group Limited (Z/Yen) on-line versions of the ratings questionnaires were developed (for components see Appendix 2). These were pre-filled from publically available data and then the organisations were approached to check and amend the pre-filled questionnaires.

In all 45 banking organisations were approached covering a total of 83 products, 25 Savings, 25 Current Accounts, 4 No Debt Current Accounts and 29 Credit Cards. A comprehensive programme of contact and follow-up was undertaken to encourage as many organisations as possible to participate. 27 (60%) organisations confirmed their data, 12 (27%) made no reply and 6 (13%) declined to participate. Given that 4 of the Top 6 Banking organisations responded (Barclays, HSBC, Lloyds Banking Group and RBS/NatWest) a significant percentage of the UK market is covered. The participants are detailed in Appendix 4. The participant rate across products varied with Savings achieving 72% , No Debt Current Accounts 75% whilst Current Accounts and Credit Cards 60% and 62% confirmed data respectively.

N.B. Where an organisation declined to participate or made no reply then data from publically available sources has been used. Fairbanking recognise that this data may be missing or incorrectly interpreted in these cases.

Appendix 2

Four questionnaires used in the survey:

Regular Savings, Credit Cards, Non-debt Current Accounts and Current Accounts.

fairbanking
Banking made fairer for your financial well-being

Regular Savings Questions

1 Enabling the customer to set a savings goal or "pot"

This section looks at features that are more likely to lead to savings action and to on-going commitment. Including encouraging people to have a contingency for the unexpected – which is a reducer of stress.

1.1 Does the customer have the functionality to set up a savings goal or "pot"?

1.2 Can different goals or "pots" for different purposes be set e.g. wedding, car, holiday?

1.3 Can goals or "pots" be personalised e.g. not just a pre-set purpose but named by the customer?

1.4 Is the customer able to set up a "rainy day" fund for emergencies?

1.5 Are there tools available to help the customer identify different combinations of amount and time periods to meet their regular savings objectives?

1.6 Can the customer produce or see different views of the savings goals e.g. pictorial, tabular display, video?

1.7 Is the customer provided with "norms" for example average monthly savings amounts for other "similar" customers' or for similar "goals" for information?

1.8 Is the customer prompted to set up payments as a result of the goal setting process?

1.9 Is there an easy mechanism for setting up payments to the savings account?

2 Providing the customer with integrated budget tools

This section looks at features that help people to be realistic about the amount they can save on a regular basis.

2.1 Is there an integrated tool that enables the customer to set a budget to determine a realistic amount to be saved and is this linked to savings pots?

2.2 Does the product enable the customer to produce different views of the budget tool e.g. pictorial, tables?

2.3 Is the customer prompted to set up payments as a result of the budget setting process?

2.4 Is there an easy mechanism for setting up payments to the savings account?

3 Providing feedback to the customer on progress towards goals

This section looks at features that enable customers to review their savings progress which in turn gives customers a sense of accountability for their financial actions and encouragement helps them achieve their objectives.

3.1 Is feedback provided on how savings are building to reach a goal?

3.2 Is encouragement given to the customer keep on saving even if on-target?

3.3 Is encouragement given if the customer falls behind to get back on track without "beating the customer over the head" e.g. can the customer switch-off or control messages?

3.4 Is encouragement given even if the customer falls behind and doesn't "recover" to keep on saving e.g. can the customer re-align the goal to a more realistic target?

3.5 If a "rainy day" saving functionality is provided is encouragement given to re-build the fund if it is used?

3.6 Can the customer produce or see different views of the "encouragement" e.g. pictorial, tabular display?

4 Providing the customer with incentives to persevere with saving

This section looks at incentives that not only help customers to achieve their objectives but that are designed to provide commitment and are continuous thus helping customers to take control of their finances.

4.1 Are incentives provided to the customer designed to provide commitment that is continuous i.e. not just geared to achieving or failing to meet an objective?

5 Additional Information

This section gives you the opportunity to tell us about additional features that you believe contribute towards customers' sense of financial well-being but that we have not covered in the previous sections. Please note that any additional information provided in this section may contribute towards a higher rating.

5.1 Does the product have any additional features that could qualify as FairBanking features? i.e. enhance customers' financial well-being.

5.2 Do you have any research or evidence to substantiate the benefit to your customers of any of your features? (e.g. academic, customer feedback, behaviour change measures.)

5.3 Do you have any plans to improve your product in this context over the next 2 years? (These could be at a high level although they should be specific.)

thefairbanking foundation™

fairbanking
Banking made fairer for your financial well-being

Credit Card Questions

1 Keeping the customer informed and in control - account balances and alerts

This section looks at features that let the customer know exactly how much is available to spend at any given point in time and when payments are due giving the customer a sense of control and the responsibility to manage their finances.

1.1 Does the product provide the customer with the ability to receive a message of the available balance of the account on a regular basis at specified time periods?

1.2 Does the product provide the customer with a reminder message to make the monthly payment?

1.3 Does the product provide the customer with a reminder message if the account balance is approaching the credit limit?

1.4 Does the product enable the customer to set a customised amount that triggers a reminder message if the account balance reaches that amount?

1.5 Is a message of balance of account available on request?

1.6 Can the customer request a mini-statement of last transactions?

2 Enabling the customer to keep track of expenditure by detailed category

This section looks at features that may help customers with being on top of their expenditure by providing an in-depth understanding of where they spend their money.

2.1 Does the product enable the customer to review expenditure by detailed category? e.g. dining out, petrol, groceries, entertainment

2.2 Does the product enable the customer to review expenditure by category through time? i.e. can the customer look at how expenditure categories change over time?

2.3 Does the product enable the customer to produce different views of the expenditure categories?

2.4 Does the expenditure category functionality provide a comparison with others e.g. an average for other customers (perhaps with similar incomes) of how much they spend in each of the categories?

3 Enabling the customer to set a budget

This section looks at features that help customers to be realistic about the amount they have to spend and help them to stay within their budget.

3.1 Does the product enable the customer to set an overall budget?

3.2 Does the product enable the customer to set a budget by different categories? e.g. dining out, petrol, groceries, entertainment

3.3 Does the product track the actual expenditure against the set budget?

3.4 Does the product provide alerts with helpful prompts to amend budget plan if circumstances change?

3.5 Does the product give incentives for achieving plan?

4 Enabling the customer to plan repayments to reduce debts

This section looks at features that help customers to take control of their debts and to take realistic actions to reduce those debts.

4.1 Does the product show the customer how long different repayments will take to reduce the outstanding balance/debt?

4.2 Does the product enable the customer to set up a repayment plan to reduce debts?

4.3 Does the product give incentives to meet plan/reduce debt?

5 Additional Information

This section gives you the opportunity to tell us about additional features that you believe contribute towards customers' sense of financial well-being but that we have not covered in the previous sections. Please note that any additional information provided in this section may contribute towards a higher rating.

5.1 Does the product have any additional features that could qualify as Fair Banking features i.e. enhance customers' financial well-being?

5.2 Do you have any research or evidence to substantiate the benefit to your customers of any of your features (e.g. academic, customer feedback, behaviour change measures)?

5.3 Do you have any plans to improve your product in this context over the next 2 years? (These could be at a high level although they should be specific)

thefairbanking foundation™

fairbanking
Banking made fairer for your financial well-being

No Debt Current Account Questions

1 Keeping the customer informed and in control - account balances and alerts

This section looks at features that let the customer know exactly how much is available to spend at any given point in time giving the customer a sense of control and the responsibility to manage their finances.

1.1 Does the product provide the customer with the ability to receive a message or an alert of the available balance of the account on a regular basis?

1.2 Does the product provide the customer with the ability to set a message if the balance has reached a certain level?

1.3 Does the product provide the customer with the ability to set a message if the account balance has reached a minimum & maximum level?

1.4 Is a message of balance of account available on request?

1.5 Can the customer request a mini-statement of last transactions?

2 Enabling the customer to keep track of income and expenditure

This section looks at features that let the customer track how much income they are receiving against how much they are spending, helping them to identify trends i.e. whether expenditure is less than income, a key factor of financial well-being.

2.1 Does the product enable the customer to track their overall income and expenditure? i.e. does the product provide a summary of the overall income received for a period and the overall expenditure spend during that period?

2.2 Does the product enable the customer to produce or receive an income/expenditure time profile? i.e. can the customer look at the change in income and expenditure over time?

2.3 Does the product enable the customer to produce different views of income and expenditure?

3 Enabling the Customer to keep track of expenditure by detailed category

This section looks at features that may help customers be on-top of their expenditure by providing an in-depth understanding of where they spend their money.

3.1 Does the product enable the customer to review expenditure by detailed category? e.g. dining out, petrol, groceries, entertainment?

3.2 Does the product enable the customer to review expenditure by category through time? i.e. can the customer look at how expenditure categories change over time?

3.3 Does the product enable the customer to produce different views of the expenditure categories?

3.4 Does the expenditure category functionality allow for comparison with others e.g. an average for other customers spending habits for each category (perhaps with similar income levels)?

4 Enabling the Customer to Set a Budget

This section looks at features that help customers be realistic about the amount they receive and what they have available to spend and help them to stay within their budget.

4.1 Does the product enable the customer to set an overall budget?

4.2 Does the product enable the customer to set a budget by different categories? e.g. dining out, petrol, groceries, entertainment

4.3 Does the product track the actual expenditure against the set budget?

4.4 Does the product provide alerts with helpful prompts to amend budget plan if circumstances change?

4.5 Does the product give incentives for achieving plan?

5 Additional Information

This section gives you the opportunity to tell us about additional features that you believe contribute towards customers' sense of financial well-being but that we have not covered in the previous sections. Please note that any additional information provided in this section may contribute towards a higher rating.

5.1 Does the product have any additional features that could qualify as FairBanking features i.e. enhance customers' financial well-being?

5.2 Do you have any research or evidence to substantiate the benefit to your customers of any of your features? (e.g. academic, customer feedback, behaviour change measures)

5.3 Do you have any plans to improve your product in this context over the next 2 years? (These could be at a high level although they should be specific)

thefairbanking foundation™

fairbanking
Banking made fairer for your financial well-being

Current Account Questions

1 Keeping the customer informed and in control - account balances and alerts

This section looks at features that let the customer know exactly how much is available to spend at any given point in time giving the customer a sense of control and the responsibility to manage their finances.

1.1 Does the product provide the customer with the ability to receive a message or an alert of the available balance of the account on a regular basis?

1.2 Does the product provide the customer with the ability to set a message if the balance has reached a certain level?

1.3 Does the product provide the customer with the ability to set a message if the account balance has reached a minimum & maximum level?

1.4 Is a message of balance of account available on request?

1.5 Can the customer request a mini-statement of last transactions?

2 Enabling the customer to keep track of income and expenditure

This section looks at features that let the customer track how much income they are receiving against how much they are spending, helping them to identify trends i.e. whether expenditure is less than income, a key factor of financial well-being.

2.1 Does the product enable the customer to track their overall income and expenditure? i.e. does the product provide a summary of the overall income received for a period and the overall expenditure spend during that period?

2.2 Does the product enable the customer to produce or receive an income/expenditure time profile? i.e. can the customer look at the change in income and expenditure over time?

2.3 Does the product enable the customer to produce different views of income and expenditure?

3 Enabling the customer to keep track of expenditure by detailed category

This section looks at features that may help customers with being on top of their expenditure by providing an in-depth under-standing of where they spend their money.

3.1 Does the product enable the customer to review expenditure by detailed category? e.g. dining out, petrol, groceries, entertainment?

3.2 Does the product enable the customer to review expenditure by category through time? i.e. can the customer look at how expenditure categories change over time?

3.3 Does the product enable the customer to produce different views of the expenditure categories?

3.4 Does the expenditure category functionality allow for comparison with others e.g an average for other customers spending habits for each category (perhaps with similar income levels)?

4 Enabling the customer to set a budget

This section looks at features that help customers to be realistic about the amount they receive and what they have to spend and help them to stay within their budget.

4.1 Does the product enable the customer to set an overall budget?

4.2 Does the product enable the customer to set a budget by different categories? e.g. dining out, petrol, groceries, entertainment

4.3 Does the product track the actual expenditure against the set budget?

4.4 Does the product provide alerts with helpful prompts to amend budget plan if circumstances change?

4.5 Does the product give incentives for achieving plan?

5 Enabling the customer to plan repayments to reduce debts

This section looks at features that help customers to take control of their debts and to take realistic actions to reduce those debts.

5.1 Does the product have an automatic tool to forecast overdraft growth, provide alerts and identify appropriate repayment amounts?

5.2 Does the product enabling customers to set a plan to reduce debt?

5.3 Does the product give incentives to meet plan?

6 Additional Information

This section gives you the opportunity to tell us about additional features that you believe contribute towards customers' sense of financial well-being but that we have not covered in the previous sections. Please note that any additional information provided in this section may contribute towards a higher rating.

6.1 Does the product have any additional features that could qualify as FairBanking features i.e. enhance customers' financial well-being?

6.2 Do you have any research or evidence to substantiate the benefit to your customers of any of your features (e.g. academic, customer feedback, behaviour change measures)?

6.3 Do you have any plans to improve your product in this context over the next 2 years? (These could be at a high level although they should be specific)

thefairbanking foundation

Appendix 3

Lessons from Behavioural Economics

A report produced for the Consumer Financial Education Body, co-ordinated by The Fairbanking Foundation gives a detailed analysis of interventions to change behaviour in financial services.[5] The following figure is taken from that report and illustrates the MINDSPACE framework developed for the UK Government's Cabinet Office.[6] This framework can be used to check that automatic behavioural processes (as opposed to rational decision processes) are being taken into account in designing policy interventions. In this context, the framework is being used to demonstrate how better personal financial management can be encouraged.

Figure 20: MINDSPACE: a theoretical framework

MINDSPACE elements

Messenger	We are heavily influenced by who communicates information.
Incentives	Our responses to incentives are shaped by predictable mental shortcuts such as strongly avoiding losses.
Norms	We are strongly influenced by what others do.
Defaults	We 'go with the flow' of pre-set options.
Salience	Our attention is drawn to what is novel and seems relevant to us.
Priming	Our actions are often influenced by sub-conscious cues.
Affect	Our emotional associations can powerfully shape our actions.
Commitments	We seek to be consistent with our public promises, and reciprocate acts.
Ego	We act in ways that make us feel better about ourselves.

5 Elliott, A., Dolan, P., Vlaev, I., & Metcalfe, R. (2010) Transforming Financial Behaviour: developing interventions that build financial capaility (Consumer Financial Education Body)

6 Dolan, P., Hallsworth, M., Halpern, D., King, D., Vlaev, I. (2010). MINDSPACE: influencing behaviour through public policy. Report for the Cabinet Office, UK

Messenger – financial institutions have suffered a loss of trust in the context of acting in the best interests of the customer. The Fairbanking Foundation, a charity, may be in a better position to influence behaviour.

Incentives – one non-financial incentive is allocating money to a “pot” or jam jar, this action makes it less likely it is used for other purposes. Examples of its application are saving and bills pots. Another example is a reducing balance on a card that has been loaded with money may trigger loss-aversion, which is not achieved with a credit card. Financial incentives include bonuses for meeting savings targets or a lower loan rate for making regular payments.

Norms – providing information about “other people like you” can alter behaviour. Giving information in the right form about the spending or saving pattern of others can influence the choices we make. We may choose to join a group e.g. savers that we did not know enough about previously.

Default – if a product is designed so that the default decision is to take a certain path, we are likely to “go with the flow”. It is easier and we are more likely to complete the task if the decision is made straightforward. A good example is the automatic setting up of a standing order or direct debit having decided how much to save each month or automatically paying a credit card balance. It can help overcome procrastination.

Salience – this is related to ways of presenting information that makes it relevant to us and therefore more likely for us to take action. Examples are showing how much was spent over different periods may encourage us to spend less or clearly showing progress with saving to a goal may make it more likely we keep going.

Priming – making suggestions or asking appropriate questions can change behaviour. Examples that may be effective are suggesting focusing on how money saved could be spent e.g. on a weekend away. This approach may help reduce spending in some areas as well as increase saving.

Affect – our emotions can be used to alter behaviour. There is little documented evidence in financial services. A potential experiment would be for customers to attach a relevant wedding or car photograph to the account being used for savings, monitoring the amount saved to see if it increased compared with others that did not do this.

Commitment – there is much evidence to support the success of using pre-commitment to alter behaviour. In finance, it works well because it helps overcome the problem of over-valuing present expenditure (hyperbolic discounting). It makes a future decision in the present frame. Works best when they are public (e.g. visible to the whole family) and /or costly (e.g. the individual cannot access the account). Examples are setting goals for savings or debt reduction.

Ego – in trying to act in ways that represent a consistent self-image, it may result in lower financial well-being. For example, if you see yourself as a poor money manager and the type of person who always has an overdraft, you will act accordingly. A financial health check can be a catalyst to take specific actions that can gradually alter this self-image.

Appendix 4

Survey Participants

	Savings	Current account	No debt current account	Credit card
AMEX			Y	
Bank of Ireland		N		N
Barclays	Y	Y		Y
Capital One				Y
CardOne			Y	
Citibank	Y	Y		Y
Egg				Y
Clydesdale/Yorkshire	N	N		N
Co-Op	N	N		N
Smile (part of Co-op)		N		
Coventry	Y	Y		
Cumberland		N		
First Trust		Y		Y
HSBC	Y	Y		Y
First Direct (part of HSBC)		Y		Y
ING Direct	Y			
John Lewis				N
Leeds	Y			
Lloyds TSB	Y	Y		Y
Halifax (part of LloydsTSB)	Y	Y		Y
M&S				N
Metro Bank		N		
MBNA				Y
Nationwide	N	N		N
Newcastle Building Society	Y			Y
Northern Bank		Y		Y
Northern Rock	Y			
Norwich and Peterborough	Y	Y		
O2		Y		
Post Office	N			Y
Principality	Y			
RBS	Y	Y		Y
NatWest (part of RBS)		Y		Y
Ulster Bank (part RBS)		Y		
Saffron	Y			
Sainsbury's				N
Santander/Abbey	N	N		N
Secure Trust Bank			Y	
Skipton	Y			
Sygma Bank UK				N
Tesco				N
Think			Y	
Thomas Cook				Y
Vanquis				N
Virgin				Y
Weatherbys Bank		Y		
Wesleyan Bank	N			
West Bromwich	N			
Whiteaway Laidlaw Bank		N		
Yorkshire Building Soc	Y	Y		
Barnsley (part Yorkshire)	Y			
Chelsea Building Society (part of Yorkshire)	Y			
Cashplus			N	

KEY: Participating Y Not Participating* N * includes six organistaions that declined to check the pre-filled questionnaire

thefairbanking
foundation™