FairBanking Ratings: socially useful banking

by Antony Elliott

About FairBanking:

Fairbanking is a research-based charity dedicated to encouraging and helping banks to improve the financial well-being of their customers and thereby the UK public as a whole. Increasingly, banks are seen as having a duty to act in the common good of the country. As water companies are obliged to supply water that is good for their customers, so bank products should be good for theirs. The importance of this duty has been made clear by the recent banking crisis and the large scale taxpayer bail outs of some of Britain's largest banks. FairBanking's work is designed to provide well-researched, independent and insightful new input to assist banks in fulfiling this duty. FairBanking was set up in 2009 by Antony Elliott who was formerly Group Risk Director at Abbey National plc for more than 10 years.

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

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Fair. Banking

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1. Introduction

This research report from the charity, FairBanking, demonstrates that product features which help improve customer financial well-being can be identified and measured through a rating system. It is the first time that banking products have been assessed using a measurement system based on financial well-being criteria. The FairBanking Rating that has resulted is intended to play a part in ensuring that the culture of the banking industry changes so as to improve outcomes for bank customers overall. 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.

FairBanking produced its first research report entitled "Fair banking: the road to redemption for UK banks" in July 2009.[1] Publication followed a year of study, involving in-depth interviews followed by a lengthy internet survey. It concluded that the time is ripe for banks to offer products with features that are demonstrably improving the financial well-being of their customers.

The societal benefits of being able to increase financial well-being in the absence of increased wealth or income are significant. In the current climate, it is difficult to envisage banks as a force for good in society. However, the evidence is that if more of the huge resources available to banks were directed towards the well-being of customers, banks could make a difference for a significant part of the UK population. The work of FairBanking provides an opportunity for the industry to focus itself on the well-being of its customers, and to make its profits from the provision of "healthy" products and services. The parallels with the fast-food industry are obvious – and telling. What we are looking for are financial products that are low in salt and fat, and high in nutrition – all served on a sesame seed bun.

It is the first time that banking products have been assessed based on financial well-being criteria

Savings products, credit cards and current accounts have been rated in this report to give examples of what can be done. Over the next few years there is a tremendous opportunity to use skills in banking to fundamentally change the retail-banking environment – and to change it in ways that will improve the outcome for customers, as well as the image of the banks themselves.

Banks can use the FairBanking Ratings to identify features that would improve their products. In addition, new features can be developed that would make a contribution to increasing well-being. It is hoped that, by creating features for one group in society, availability will spread to those with most difficulty managing their money.

To pursue the path towards a goal of greater well-being for bank customers may appear to be idealistic. And indeed the Financial Times accused the first report of being "born of idealism"[2]. However, the evidence is that the product features described in the rating system require willpower, on the part of providers, rather than any significant commitment of capital. There are enough examples contained in this report to show that improving financial well-being does not undermine the profitability of the bank. Indeed it is highly likely that the benefits of having loyal, satisfied customers will make this approach a successful strategy. The test is to convince retail bankers in the UK to embrace an approach that will create well-being for their customers and long-term value for themselves.

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

2 "White paper over the cracks", Matthew Vincent (FT:10th July 2009)

2. Encouraging products that improve Financial Well-being

The July 2009 report developed the Financial Well-being Index for young workers and families. In addition, it proposed specific product features that retail banks should offer when seeking to address the financial well-being of their customers.

The research carried out for that report did not cover the poorest or wealthiest in UK society or all age groups, but it is considered to be relevant to some nine million people with a gross household income in the range of £15,000 to £60,000 and who are aged between 18 and 39. It is highly relevant to young people who are new to the workforce and to families with young children. 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 having children is often linked with the pressures of losing one income or moving home.

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**.

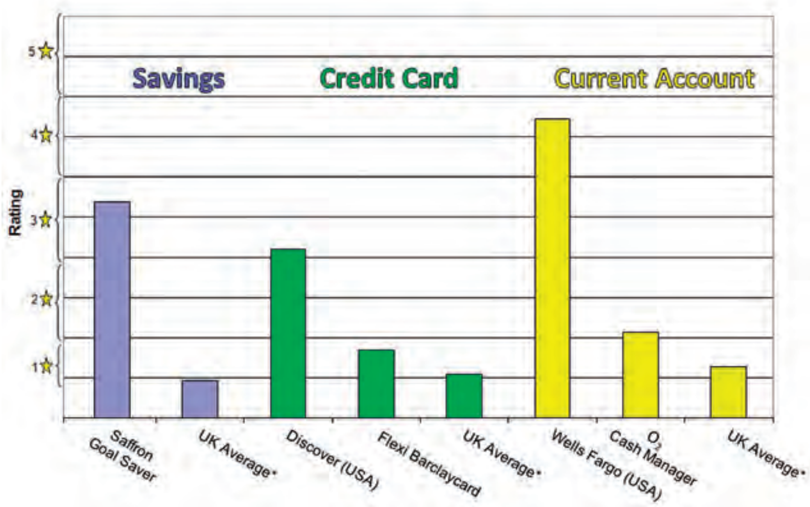
Savings, credit card and current accounts have been reviewed to give them a FairBanking rating

This research identifies products in the UK with features that are likely to drive the above factors. Savings, credit card and current account products have all been reviewed to seek out the best that is available and to give them a FairBanking rating. This research is a 'first-step' and its primary purpose is to establish a methodology to rate products and to establish whether rating products according to their contribution to financial well-being is possible. The features analysed include alerts/messages, particularly of balances, setting savings goals, debt repayment plans, budgeting, incentives and disclosure of customer research.

Most of the products that receive a positive rating have come into being in the last two years; indeed many have emerged only in the last year. At first sight, it is not an optimistic picture as most ratings are at a one-star level (out of the five stars that are available). However, one institution achieves a 3-star rating for a product, the Saffron Building Society's "Goal Saver" account. Nevertheless, in the last year there have been some positives. Barclaycard, for instance, has improved the service offered through its website, mybarclaycard, and shows signs of setting an example for other credit card providers. The mobile phone operator, O2, with its Cash Manager product, has launched a card that has overtly marketed its "control" features; it is setting an example to the main providers of current accounts.

Figure 1:

Highest rated savings, credit card and current account products



(US comparisons for credit card and current account and *average of top 10 UK products)

Savings products

Only two banks (Saffron Building Society and NatWest) contribute positively to the top 10 average, both have high ratings. All other banks score zero for savings products using the 14 components of the rating.

Credit cards

The top 10 providers of FairBanking features average a one-star rating, although a US role model (Discover) shows that a three-star rating is possible. A US product would need to be tailored to the UK market, but Discover's product clearly demonstrates that the technology exists to allow these products to be developed. Barclaycard is looking to develop more FairBanking content, so we are hopeful that the picture could change even during the course of 2010.

Current accounts

The quality is similar to credit cards with the top 10 banks only achieving an average of a one-star rating. However, O2 does (just) achieve a two-star rating. It is noteworthy that O2 is not a bank, and that it promoted its offering with the slogans "never overspend" and "your money in your hands".

The Future

It is possible to differentiate products based on the Financial Well-being Index

The research shows that it is possible to differentiate products based on a Financial Well-being Index. This measure would complement those measures currently used, such as interest rates, cash back, interest free periods and penalty charges. There is considerable scope for differentiation between products with many product opportunities if customer well-being were to be the driver of innovation.

The low ratings of financial products in the UK represent an opportunity. We only have to look at the New Car Assessment Programme ('NCAP'), which was started in 1994 to see how rapidly change for the better can occur. In 1997 carmakers insisted that, "the assessment criteria are so severe, no car will ever be able to achieve four stars in Adult Occupant Protection". The first five-star car rolled off the production line in 2001. Now, the benchmark keeps being raised in line with technological developments and more social pressure e.g. for pedestrian safety. We want to see similarly rapid innovation in the UK financial services sector to help with financial decision-making.

This report could be a catalyst for the retail banking industry to embrace the need to act in the interests of customers. There is considerable scope to help people make good, healthy financial choices. There is no sense in which this is taking decision-making away from the customer. Rather, it makes the banking experience one in which the outcome is better for families and individuals who are trying to manage their finances.

It has become obvious that there is no "law of nature" that generates continuous improvement in financial services for the benefit of the customer. A sales-driven, profit-oriented, bonus-linked banking culture does not lead to the public good that banks are there to deliver. What is needed is a well-being oriented, customer satisfaction-linked culture in our banks and financial institutions.

This is the first time that Financial Well-being Ratings have been attempted, and there is considerable scope for development. We have made every effort to identify FairBanking features correctly, but inevitably something may have been missed. In some instances, it has been difficult to work out what services are offered from bank websites. For some products, it was necessary to open an account or to find an existing user to discover what was really on offer. If we have missed anything, we can include it in the next update of the ratings. We are actively seeking out unambiguously good products and services, so any omissions are not intentional.

It is our opinion that, like drug companies, banks should disclose the positive and negative effects their products have on customer groups. When a new product is launched, the results of trials could be disclosed, and updates provided. There may be product features that have good evidence to say they contribute to customer well-being. If these are drawn to our attention, they will be included in the rating process. If an institution is not mentioned, it is because it has not been possible to demonstrate that the feature being rated exists in its products. It does not mean existing products are "unfair"; they just do not appear to have the features that are being rated.

We are looking to the industry to embrace these ratings, and to become more innovative in the interests of customer well-being. We want other bodies to work with FairBanking to build on these measures. The charity, FairBanking, needs practical support in terms of co-operation and funding, particularly for its research to cover other vulnerable groups. Are we going to be supported?

3. The FairBanking Ratings

For each product, key features are identified that contribute to the FairBanking rating. These differ according to the product, i.e. savings, current account or credit card. The features receive a score and according to the accumulated score a rating is given. The highest rating is 5-stars.

It is acceptable to receive a 1-star rating, and a 5-star rating therefore represents a very high level of service. The standards are deliberately difficult to achieve, so there can be no assumption that the best product currently on the market should receive a 5-star rating.

Our earlier research showed that helping customers to manage their money better is likely to have an effect on Financial Well-being. In this report, ratings are being given where it has been identified that products contain features that, if used by customers, are likely to lead to greater well-being.

In the review of savings products, credit cards and current accounts, the following areas were identified as contributing to financial well-being:

For each product, key features are identified that contribute to the FairBanking rating

Savings Products

> **Target set and Feedback** – establish an amount to be saved and how it will be reached. Helpful questioning to make targets realistic would improve the likelihood of success. Integrated feedback from the account and the build-up to reach target.

> **Rainy day fund** – encourage this to be separated and used for emergencies and then rebuilt.

> **Specific life event** – identify one or more life events or other major purchases that are objectives for planned saving. The process of asking questions will act as priming and increase the probability of saving success.

> **Integrated budget calculator** – enable customer to work out how much they can afford to save or be helped to identify further saving.

> **Consider different saving amounts and periods** – integrated ability to identify how different saving amounts and periods will build to reach objective.

> **Incentives** – extra interest paid for achieving plan or more subtle non-financial incentives that act to encourage customers to continue with savings plans.

Current accounts and Credit cards

> **Balance Alerts/Messaging** – customers, particularly younger customers will find text messages helpful and some accounts offer e-mail alerts when a balance reaches levels prescribed by the customer. The least useful is a regular (e.g. weekly) balance. Some accounts offer a balance after every transaction on the mobile or the ability to request a balance at any time together with the last few transactions.

> **Credit Card Messages** – these provide additional control when they alert the customer to the need to make a payment or that the credit limit is being reached.

> **Expenditure by category** – this is an important step in having a plan/budget. It helps customers "think of their money in pots" and it makes it more possible to make adjustments for a change in circumstances. Customers need to be able to define their own categories, identify changes in expenditure through time (e.g. monthly). Suggestions could be offered as to where to reduce expenditure.

> **Budgeting** – to be able to establish a budget or plans, either for overall finances or for individual categories are useful steps towards creating financial well-being.

> **Debt reduction plans** – having integrated methods by which to plan for debt reduction either for the credit card or current account overdraft are useful features. Having the ability to set a realistic debt reduction target. Tools to enable integrated calculation on how long different amounts of payment will take to reduce debt.

- **Incentives** – whether to keep to expenditure plans or debt reduction plans. These may be financial or loyalty-type incentives or may be non-financial. Ideally they would be pertinent to the objective e.g. an interest free month for debt reduction.
- **Multiple presentations** – some people prefer spreadsheet approaches, others like pictorial approaches (e.g. pie charts). Pictorial approaches may not just be of spreadsheet information, but could illustrate the expenditure e.g. house, health, car, etc. This can make a difference to the probability of a tool being used and is important for that reason.

Research – applies to all products

- Firstly, actively disclosing the basis for introducing a feature can generate confidence that it is expected to increase well-being.
- Secondly, publishing the results/feedback from customers in respect of their improved financial well-being. How much more satisfaction did a customer have using these features than a similar customer not using these features? Did these customers manage to reduce debt faster or increase savings more? Were these customers better able to deal with a change in circumstances? The research would be particularly valuable if it were to identify vulnerable population groups such as those on lower incomes, younger customers, or other groups that were particularly likely to benefit from the features of the product given the research findings.

The 3-star rating for Saffron Goal Saver is the highest given to any UK product

4. The Results

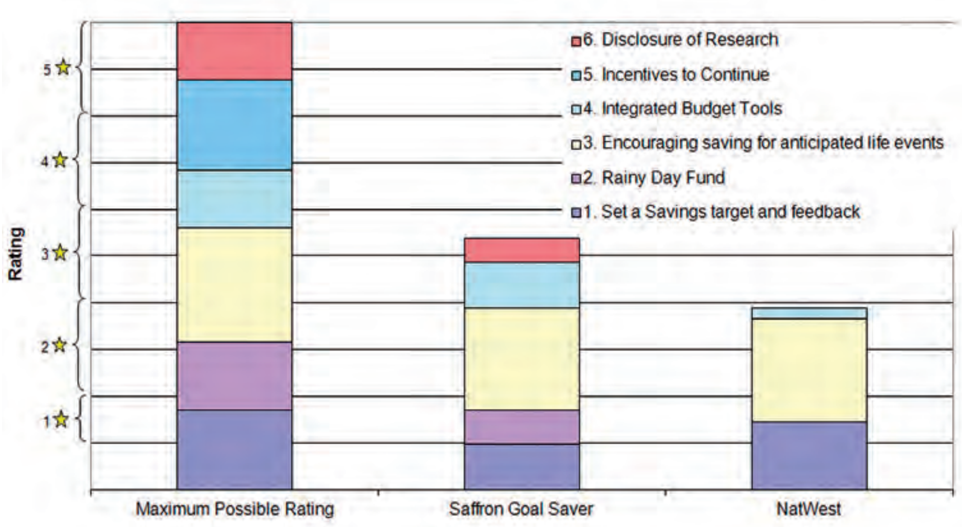
Savings Products

There are only two products in the UK that have been identified as containing the features that encourage saving and are likely to lead to greater well-being for customers. The two products are both new and come from the Saffron Building Society and NatWest Bank.

The 3 star rating of Saffron Goal Saver is the highest given to any UK product in this report.
The NatWest savings feature receives a 2-star rating and has many positive elements.

Figure 2:

Savings Products – FairBanking Ratings



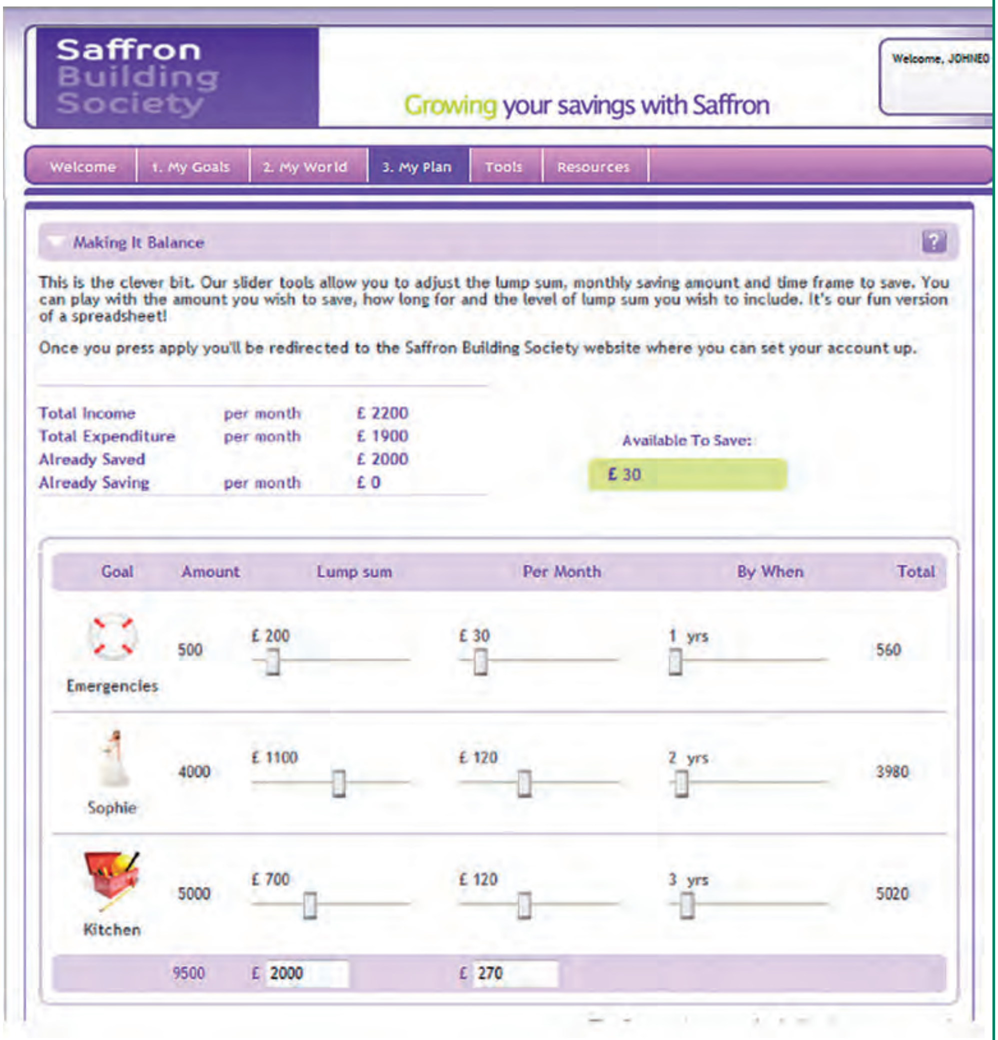
The graph illustrates that Saffron Building Society (20th largest in UK, based in Saffron Walden) communicates the research on which its product is based. It encourages the setting of multiple savings targets for specific purposes or for a "rainy day" based on a financial plan that can be stored on the system for review later. The combination of features can help a customer to develop the savings habits that they are wanting, provides a route to overcome inertia and helps to ensure that targets are realistic without being too optimistic.

The early evidence is that customers save more into this account than similar accounts. The deposits are saving for homes (36%), a rainy day (19%), retirement (16%), weddings (9%) and cars (6%). The features were designed to help the customer feel more "financially savvy", place them in control of their savings, give them a helping hand and be hassle-free. The thrust of the research evidence was that a goal appeared to be key to achieving regular saving.

This screenshot (Figure 3) illustrates the various goals being set (e.g. emergency fund, wedding, household improvement) and the sliders to balance existing savings and the amount still required:

Figure 3:

Screenshot from the Goal saver account of Saffron Building Society



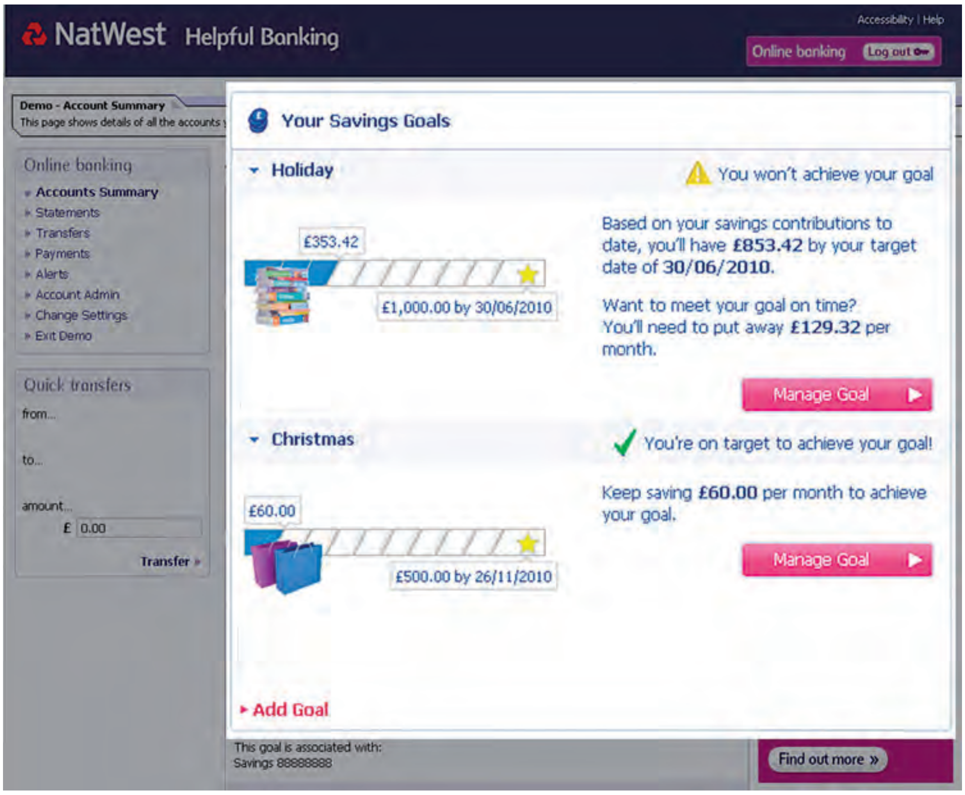
Both Saffron and NatWest plan to make significant improvements in 2010

The Saffron is upgrading the product for re-launch by May 2010 with significant improvements. It is likely to warrant a 4-star rating at that time. FairBanking is considering awarding a type of kite-mark to this highly rated product and it may become the first product in the UK to warrant this certification (see Section 6 for details). A "kite-mark" will require some disclosure from the financial institution and there will be specific explanation as to why it has been awarded. The concept is one of "FairBanking Inside" with a clear understanding on the part of the customer of the definition attached to FairBanking in this context. It is not the whole product or service, but the identified features.

The NatWest tool similarly sets goals with an easy device to work out the amount of regular saving required for different periods and levels of existing savings. Each goal must be associated with a separate account and a feedback chart is given to show progress. It does not include a rainy day savings concept. Figure 4 illustrates the tracking of multiple goals, including a prompt if the goal is not being met. Following the launch in December 2009 we are advised that there has been "incredibly strong" uptake of this product. NatWest plans to make significant improvements in 2010.

Figure 4:

Screenshot from “Your Savings Goal” tool from NatWest



Barclaycard is the closest to offering a credit card with a 2-star FairBanking rating

Credit Cards

In the UK, the following credit cards have a single star rating:

- **Barclaycard Flexi-rate** (Encouraging repayment, expenditure by category and balances/alerts)
- **Barclaycard** (Expenditure by category and balances/alerts)
- **American Express** (Balances/alerts)
- **Post Office** (Encouraging repayment)
- **First Direct** (Balances/alerts)
- **Tesco** (Balances/alerts)
- **RBS/NatWest** (Balances/alerts)

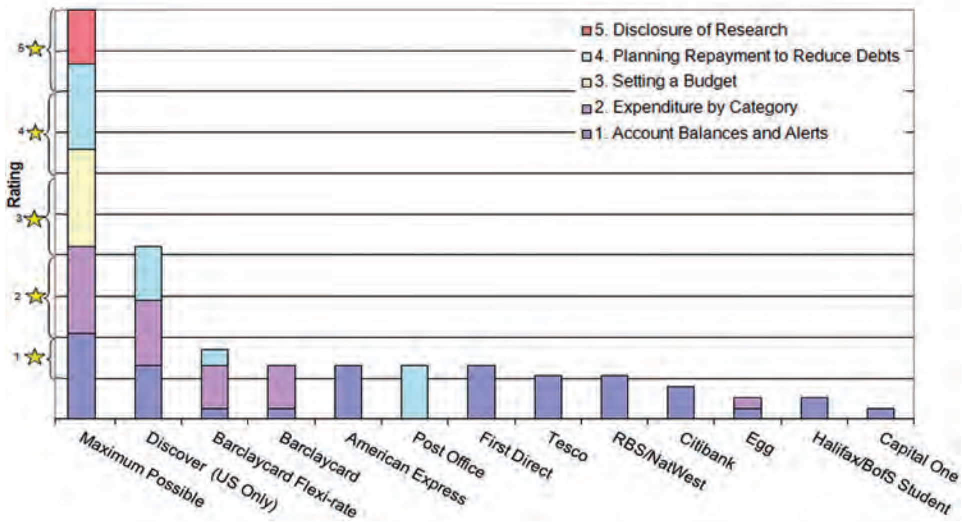
It is noteworthy that there is considerable variety as to how the star rating has been achieved.

The Barclaycard Flexi-rate Card would get an award for Best FairBanking Credit Card, if there were such a thing. It has the expenditure categorisation features and mobile banking of the full Barclaycard product range, but it gains some extra points because it encourages repayment by offering a lower interest rate for making a larger repayment than the minimum. It would have scored more highly if it was more widely available, however, it is not available to existing Barclaycard customers and has other restrictions, which severely limit those that can obtain these incentives.

Arguably, Barclaycard is the closest to offering a credit card with a two-star FairBanking rating. This is due to the categorisation of expenditure facility (see below). If they were to improve the level of mobile phone account balance and alert functionality to the same level as that offered by three other cards, it should be able to achieve a two-star rating. This would be assured if it were to make small improvements to its expenditure-tracking feature.

Figure 5:

Credit Cards: FairBanking Ratings (US comparison included)



The 20 provider groups that offer credit cards have been reviewed

The results shown above follow a review of credit cards in the UK as at the end of December 2009. Many providers have multiple credit card offerings and there are at least 200 cards available. The 20 provider groups that offer these cards have been reviewed; for this measure all providers owned by a single institution count as a single provider (e.g. First Direct and HSBC or Egg and Citibank). Half of the credit card providers do not receive any points towards a FairBanking Rating. In most cases, the FairBanking features are available on all cards from a provider, but there are some exceptions, such as Halifax/Bank of Scotland only providing mobile access to alerts and messages on its student credit card offering. The on-line brand of a bank may have a different level of features to the branch-based brand. All banks/credit card companies with a non-zero score are included in Figure 5.

No rating is given for loyalty schemes, balance transfers, competitive rates or donations to charity on the basis that there is no evidence of a link with Financial Well-being.

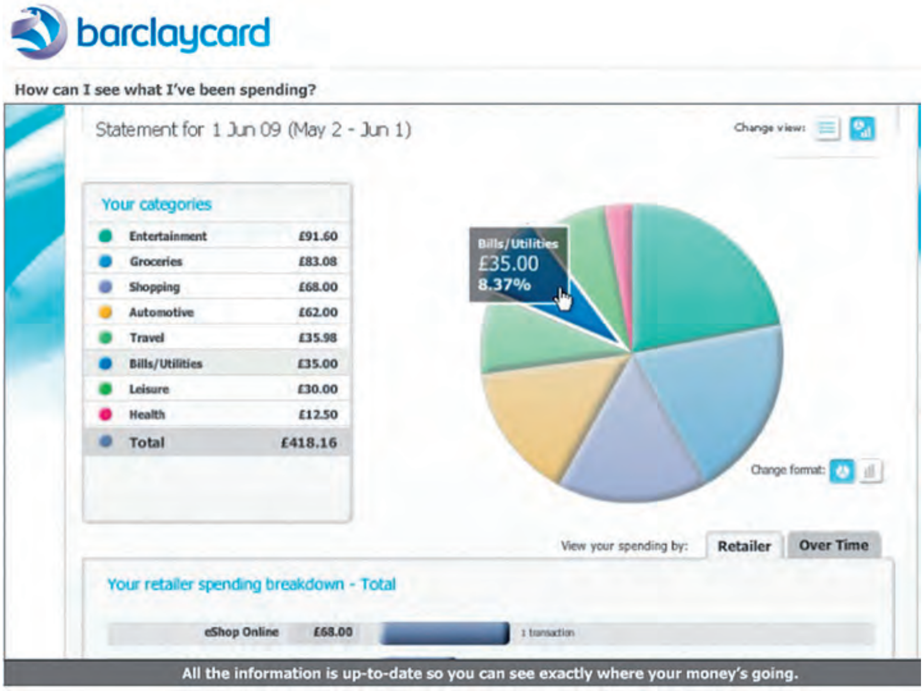
In order to demonstrate what could be achieved it has been necessary to choose a US role model. The credit cards issued by Discover are a 3-star example. This major US credit card company has won awards for loyalty, which is a pointer to the quality of its products and service. It has good alert and balance messaging, provides excellent breakdowns of expenditure and encourages planned repayment of the balance on the card. Its card would need to be tailored to the UK market, but it is evidence of what can be done with current technology and will-power. More details of the Spend Analyzer and Paydown Planner of the Discover card are contained in Appendix 2.

In the UK, Barclaycard has made a big step forward by using its mybarclaycard site to enable customers to analyse expenditures by category (e.g. groceries, automotive) and create their own categories. Limited comparison over time shows which week in the month the expenditure has occurred. The service allows customers to search and display their transactions by retailer, category and over time (week by week) for up to 13 months. Different presentations of the information are provided e.g. tabular or pie charts. A screenshot from mybarclaycard is shown in Figure 6 below to illustrate the customisable category breakdown feature:

Four credit cards offer a good range of account balance information and alerts

Figure 6:

Screenshot from Barclaycard demonstrating spending categorisation



Although this is a positive feature it is acknowledged by Barclaycard to be a first step. There are no budgeting features, it is not linked to any e-mail alerts, it does not allow comparison between months, quarters or years and the re-categorisation process can be slow. The lack of the provision of a comparison between months is a significant drawback as it is difficult to identify whether more or less is being spent through time. If this comparison information were provided, it may lead to a change in behaviour. Despite the drawbacks, this is a significant development and is deserving of the one-star rating.

The Post Office credit card offers a FairBanking feature that encourages repayment in a one-year period. The customer can make up to two major purchases and repay them over one year at a low fixed rate of interest. This facility derives from the Bank of Ireland "2 in1" Credit Card offered in the Republic. This good feature would be a considerable advantage for customers who choose to make major purchases on a credit card, but want to repay in a certain period and not incur substantial interest costs.

Four of the credit cards (American Express, First Direct, Tesco and RBS/NatWest) offer a good range of account balance information and alerts e.g. approaching credit limit or a reminder to make the minimum payment. These services are all likely to increase the sense of control that the customer will experience. Appendix 3 gives more information on the availability of internet or text alerts and balance information by text.

Unfortunately no credit cards offer any form of budgeting or planning support. There is no disclosure of research into how the product is designed to help customers or research into the response of customers in terms of reducing financial concerns or increasing financial satisfaction.

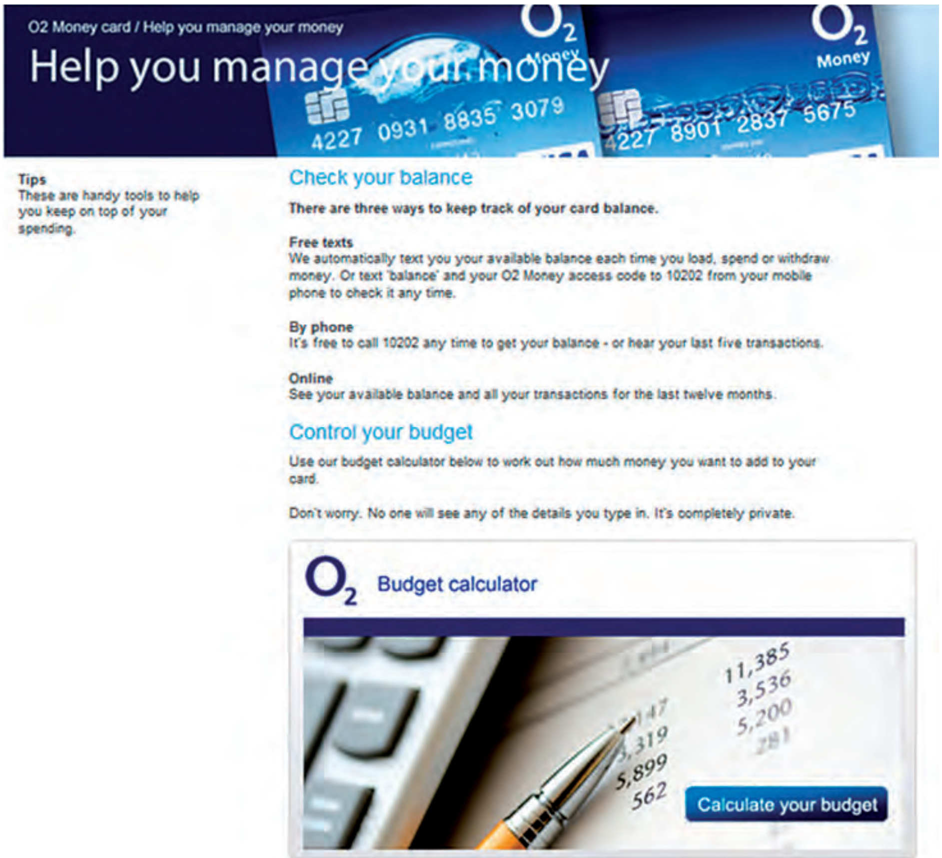
Current Accounts

The top ranking current account in the UK has been identified as the O2 Cash Manager. Arguably this is not really a current account, although it is "powered by NatWest" to quote O2. It can be loaded from any bank account. The concept is that you determine your discretionary expenditure for the month and load this amount of money onto the O2 card. It then acts like a debit card (it can be loaded from any current account). The site contains a good budget calculator (although the budget cannot be saved). The card uses pre-pay technology so that it is not possible to go overdrawn and a text message is sent to your phone on each use. You always know how much is left. This is better than a credit card that always shows a rising number rather than the falling number of the pre-pay card, when ultimately the money will run out.

The top ranking current account features in the UK are provided by the 02 Cash Manager

Figure 7:

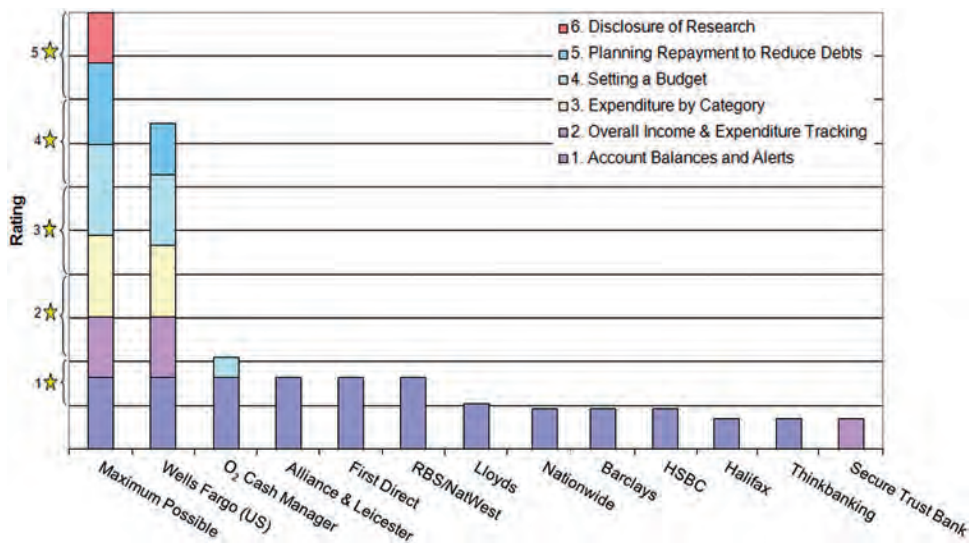
Screenshot from O2 Cash Manager



Customers that use it in the way intended gain considerable control benefits compared with any "normal" current account. The very large take up of the card is an acknowledgement of the demand for these features. O2 has informed us that the card has two primary user groups. Firstly, there are the customers who like to be in control of their finances and see the card as an additional tool. Secondly, and not fully anticipated by O2, were large numbers who are in financially challenging situations, but can use the card to access purchases over the internet and elsewhere, without requiring a credit check. They know that they will not acquire more debt in the process.

Figure 8:

Current accounts: FairBanking Ratings (US comparison included)



Products in retail financial services suffer from low investment despite the profits that have been made

The Wells Fargo current account in the US is an example of a 4-star account and one that if it existed in the UK may receive a FairBanking kitemark-type certification (see Appendix 2 for details). Its features include full budgeting, alerts by e-mail and mobile, establishment of a debt repayment plan and integration with savings accounts. Unfortunately, there is nothing in the UK at present with the same level of features. There are five accounts with a one-star rating due to the level of alerts and account balance functions being offered to help customers have greater control (see Appendix 3 for information on alerts and balance enquiries). These accounts are provided by Alliance and Leicester, First Direct, RBS/NatWest and Lloyds (Lloyds, however, has a monthly charge).

There are at least 180 current accounts in the UK offered by the 27 banking groups in the UK that have been reviewed for this report. There are 18 banking groups offering current accounts in the UK that do not receive any mention because it has been difficult to identify that the account has any features designed to improve the financial well-being of customers.

5. A virtuous circle through research

FairBanking would like to see a major change in the financial sector towards utilising research to develop products and services to improve customer well-being. Products in the retail financial services sector appear to suffer from low investment despite the considerable profits that have been made in the last 10 years. Investment has focused on reducing costs, payments systems and delivery channels. Investment in the products themselves to improve the well-being of customers seems meagre. This is particularly true for those customers who are on average and below average incomes.

Hopefully, this report is sufficient to show that there is huge scope for improving products based on areas such as realistic targeting, creating incentives, overcoming procrastination, establishing a commitment and well-informed mental accounting ("thinking of money in pots"). These can help customers to have more control over their finances, not to acquire debt inadvertently and to increase saving.

As with car safety, it would be good to see a virtuous cycle of investment and periodic step change improvements in the products and services delivered to customers. The well-being of the customer should be at the centre of the offering in the same way as car safety has become a key customer need. Another analogy is research into drugs where the drug company will identify the patients that will benefit from using it. Detail is produced as to who should benefit from a product and who should be careful or avoid taking it.

We dream of a day in which each product has features that would create a greater sense of well-being for every customer

A "kite-mark" may help inform customers of what is really good for them about a product, if they choose to use the features.

6. Kite-marking

FairBanking would like to offer a certification, similar to a kite-mark to institutions that have sufficient features in their product to have at least a 3-star rating. It would be clear from a click on the FairBanking logo which features that, if used by the customer, would give them greater control over their finances.

It is intended that FairBanking would identify all the features that contribute to the rating and financial institutions would submit products for rating. If the institution wanted to use the "kite-mark", it would need to disclose quantitative and qualitative evidence from customers regarding the improved well-being or satisfaction resulting from using the product.

Ideally, this activity would lead to organisations being accredited to certify that products are delivered in accordance with the FairBanking features. We dream of a day in which each product has clearly identified FairBanking features that would create a greater sense of well-being for every customer that chooses to use them.

The creation and development of FairBanking products is at an early stage and we wait to see if they grow like a new vaccine or are strangled in the perpetuation of the sales-driven banking industry culture from the noughties.

7. Ideas for further research by FairBanking

FairBanking may be able to help with the development of products in addition to the ratings. The following are other ideas for research that would improve the infrastructure for developing socially useful products and services. Projects such as these could lead to a growth in incentives for banks to act in a socially responsible way towards customers. We would like to see:

Financial well-being

Completion of the FairBanking research into Financial Well-being so that it covers all population groups and not just young workers and families with young children as at present. The research would enable financial institutions to ensure that one component of product design included money management features that were likely to generate long-term well-being.

Segmental research

Identifying the developments and approaches that are most likely to lead to behavioural change for different groups of the population. For example, the level of simplicity, delivery mechanism (mobile, internet etc), the format in which information is presented and incentive mechanisms are all likely to have different effects for different populations groups.

Charitable giving

Some credit card providers give opportunities to make gifts based on usage of the card. These tend to be small amounts (e.g. 0.25%) even compared with the amounts returned on cashback cards, but nonetheless may provide a well-being benefit when the customer knows that a small amount is going to a charity they want to support. There are a number of areas where banks are taking action that do not feature in this report, but which may have an effect on financial well-being.

Financial help sections on websites

Most financial institutions will have a section of their website giving a combination of budgeting tools and referrals to other websites, such as the Financial Services Authority site, called “Moneymadeclear”.

These sites are not linked to the accounts of the individual and in most instances the budgeting tools cannot be saved. It would require further research to determine whether these sites have long-term well-being benefits for the customers that use them. They are likely to provide very valuable short-term assistance when the customer faces an issue. The sites are variable in terms of both content and presentation quality. It would be useful to know how effective they are in terms of changing behaviour or reducing worry for the customers that access them.

If behavioural change effects could be identified they could be shared across the industry and links established with the product offerings to ensure that customers are aware under what circumstances others have found them to be really useful.

Potentially customers could provide reviews of the content of the site to identify whether they are useful and give tips to others. This would be with a view of raising the overall quality throughout the banking industry.

Penalties as incentive to repay debt or to avoid debt

In the debate on charging penalties for unauthorised overdrafts it has been suggested that the penalty acts as a disincentive to incurring debt. If the penalty did work in this way it may result in lower debt for individuals and therefore be justifiable in terms of FairBanking, provided it was not excessive. Research could be undertaken as to whether the penalty was having a disincentive effect on customers taking on debt.

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.

Both of these groups are of interest – young workers owing to the money management challenges they face as they enter the workforce, and the family because of the challenges of balancing the various demands of family life.

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 statements and other factors (such as income and unsecured debt) to identify whether any are 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.

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 24 components contributing to the rating for current accounts, 21 for credit cards and 14 for saving products.

There are key differences between current account and credit card features included in the rating. Current accounts can enable a customer to monitor both overall expenditure and income. Credit cards can have alerts to make a payment and thereby reduce interest payments. Savings products are a simpler product, hence the smaller number of factors that are weighted in the rating methodology.

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.

Appendix 2

U.S. Role Model Products for Credit Card and Current Account

1. Discover Credit Card

Expense categorisation

It is in the areas of expense categorisation and clear presentation that the Discover card in the US is a much better product than any UK comparators and something to which Barclaycard can aspire. The following screenshots provide a sense of the functionality offered by Discover.

Figure 9:

Screenprint of Discover credit card expenditure categorisation
(available in US only)

Planned repayment of debt

The "Paydown Planner" tool provided by the Discover card helps the customer to consider how to repay the balance on a card using their account information. It shows the monthly payment required and allows the customer to adjust the monthly spend taking place in order to achieve the target. The same integrated tool does not seem to exist in the UK. Three screens are shown below to give the general idea.

Figure 10:

Discover Card: demonstrating a goal for debt repayment

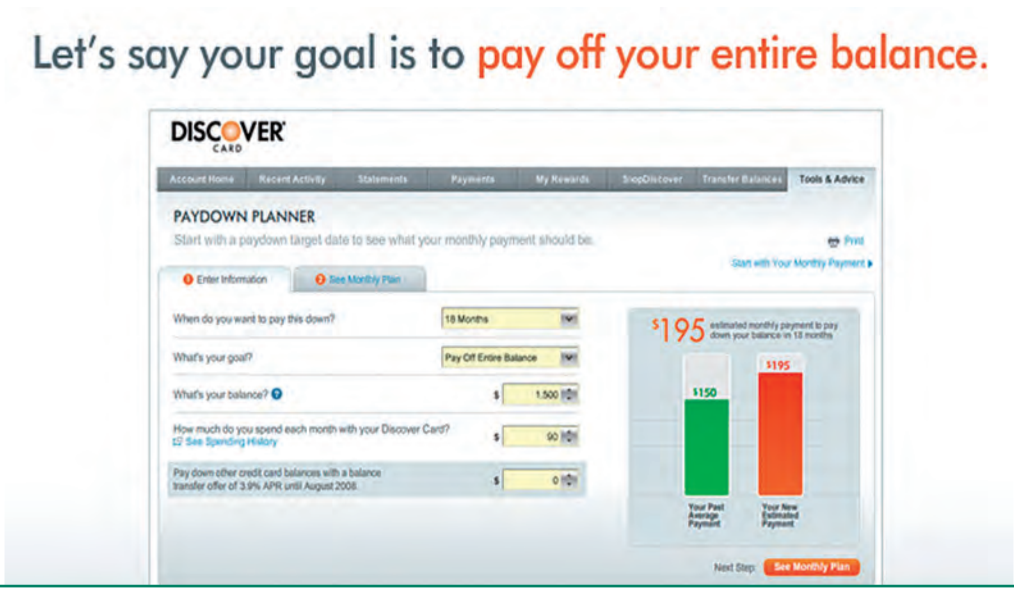


Figure 11:

Discover Card: helping to make goal realistic by relating to spending history

Figure 12:

A plan is developed, integrated so as to encourage customers to "Stay on Track"

2. Wells Fargo Current Account

The current account of Wells Fargo in the US provides a role model for British banks. It has a 4 star rating and has good features in five of the six categories. Wells Fargo, the fourth ranking bank by assets in the US, has won awards for both its internet and mobile banking offerings. The following slides illustrate the expense categorisation and budget planning. Debt Pay Down Solution® tools encourage customers to budget and use "what's left" to repay debt. There are many features that are designed to help customers manage their finances. It would be more helpful still if the bank published the underlying research explaining the customer groups that found these tools useful and evaluations of what difference the tools had made to the behaviour of the customers.

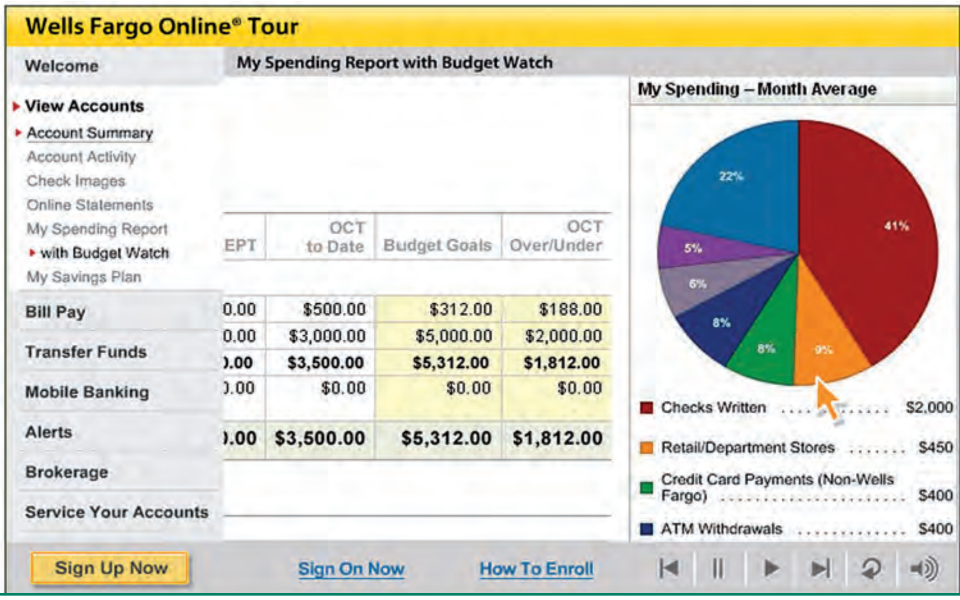
Figure 13:

Wells Fargo Budget Tool with Messaging

This account not only gives a breakdown of expenditure, but also provides the facility to set a goal by expenditure category and report against it. This includes the setting of alerts for key budget items so that the customer is aware of when the budget is becoming fully utilised.

Figure 14:

Wells Fargo: Budget Goals



Appendix 3

Text, phone or email balance enquiries and alerts

1. Credit Cards

American Express is slightly ahead of First Direct, Tesco and RBS/NatWest in the provision of account balance and alerts in a user-friendly form, particularly by mobile phone.

The following chart summarises the situation:

	Balance (Regular)	Request Balance on demand	Payment Reminder	Credit limit Approach Reminder	Pre-set amount Balance Reminder	Mini-statement
American Express	Y		Y	Y	Y	
First Direct	Y				Y	Y
Tesco			Y	Y	Y	
RBS/NatWest			Y	Y	Y	
Citibank	Y		Y	Y		
Halifax/BoS Student	Y		Y			
Egg	Y					
Barclaycard			Y			
Capital One			Y			

The feature of being able to request your balance or a mini-statement from your phone is not as widely available on a credit card as it is on a current account. This feature puts control in the hands of the customer by enabling them to obtain a balance at any time. To be able to receive a text whenever the balance reaches a certain amount provides a useful trigger to take action or review the situation. It reduces the likelihood of expenditures increasing without the customer being aware.

2. Current Accounts

The only money management feature/tool for these banks is the account balance/alert service. These can be provided by phone, e-mail or text. The chart summarises the offerings:

	Balance sent (Regular)	Request Balance	Pre-set amount Balance Reminder (inc. overdraft limit)	Message - balance reached minimum & maximum level	Mini-statement
Alliance & Leicester	Y	Y	Y	Y	Y
First Direct	Y	Y	Y	Y	Y
RBS/NatWest	Y	Y	Y	Y	Y
Lloyds Bank*	Y	Y	Y	Y	Y
Nationwide	Y	Y			Y
Barclays		Y			Y
HSBC		Y			Y
Halifax		Y	Y**		Y
Thinkbanking		Y			

*Lloyds Bank charges for most of these alerts/enquiries, which is reflected in the rating.

**Only a feature of Halifax Reward Current Account, a mobile text alert sent when enter unarranged overdraft, further reminder every 7 days. (Low rating)

In order to get a one-star rating the service needs to involve the trigger of being sent a balance when the account reaches a certain level whether by e-mail or text. A pro-active alert from the bank provided to the customer at a level determined by the customer is the most likely to trigger a behavioural change.

Antony Elliott FCIB spent over 10 years as Group Risk Director of Abbey National plc having worked for a number of UK and international banks previously. He had overall responsibility for the control of consumer credit risk throughout this period. For many years he contributed to or was chairman of committees providing industry input to the supervision of banks, particularly at the British Bankers' Association and the Institute of International Finance.

After he left in 2003, he researched and produced a report on why people get into too much debt. Entitled, 'Not waving but drowning: over-indebtedness by misjudgement', it was published by the Centre for the Study of Financial Innovation ("CSFI") in 2005 and was widely discussed at the time. It contained a number of prescient recommendations.

While working for a large hedge fund he pursued the vision of a banking system that helps people manage their money. He founded the charity, FairBanking in 2008, which commissioned research into the link between a person's money management and their level of contentment or well-being. He wrote a report based on this research, "Fair banking: the road to redemption for UK banks", also published by the CSFI (2009).

Antony has a BSc in Banking and International Finance from City University and an MSc in Operational Research from Imperial College, London.

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Fair Banking