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## Banks have been selling 'fast cars' without improving the brakes

*A new study establishes the 'Financial Well-Being Index' and sets out what banks should do if they are serious about helping their customers*

**LONDON, 7 July 2009** – The Centre for the Study of Financial Innovation today publishes the first study completed by the new research-based charity, FairBanking, ([www.FairBanking.org.uk](http://www.FairBanking.org.uk)) entitled, "Fair Banking: The road to redemption for UK banks".

This study has involved extensive consumer research and analysis to develop a Financial Well-Being Index. It provides both a crucial insight into the factors that affect financial well-being and a method by which changes can be measured over time.

Antony Elliott, author of the report and Director of FairBanking, said:

*"The truth is that banks in the UK have been doing the equivalent of selling faster and faster cars to their customers without ever improving the brakes. The results of this have been self-evident.*

*"If the banks really do want to redeem themselves in the eyes of their customers, this study shows them precisely how to do it. It even provides a robust and entirely credible mechanism for the banks by which they can measure the improvement in their customers' financial well-being, which they have helped bring about."*

Antony, former Group Risk Director of Abbey National plc, added: *"This research should be seized on by the banks themselves to give impetus to rebuilding the trust and integrity of this embattled industry."*

The study focused on two key groups of consumers: young workers and families. The research and analysis was conducted by Iris Concise, a leading independent research agency, over the year to June 2009.

Based on its findings, the study proposes three new financial planning tools that banks could provide to improve their customers' financial well-being. The FWB index could be used to take readings before and after the introduction of these tools to confirm their effectiveness.

These tools are:

1. Income/expense management tool – to enable customers to stay within their monthly budget.
2. Savings tool – to help customers build savings for a specific item.
3. Debt reduction tool – to help customers reduce overdraft or credit card debts.

Although work was started on this study before the banking crisis began in earnest, its completion is nonetheless timely.

First, the UK is in a deep and prolonged recession, placing major strains on millions of people's finances. They need help and this report provides it. Second, after the credit crunch, banks need to rebuild their standing and relationships with the UK consumer, especially given the extent of the taxpayer bailout that has taken place.

Importantly, the study finds that financial well-being is not primarily a function of how much money people have. Instead, it is determined by the extent to which a household with income above the poverty level is *not worried because it is exercising sufficient control to have enough money*:

- *to pay for essentials;*
- *to have some left over for luxuries;*
- *to service its debts;*
- *to have savings for the unexpected;*
- *to save regularly.*

Turning to the banks, the report makes four key recommendations. They should:

1. Encourage greater financial control within UK households by developing products and internal processes that enable customers to exercise overall control of their money.
2. Keep the unsecured debt to gross income ratio (DIR) as low as possible by assisting customers not to borrow more than they need and by making it easier to repay debts.
3. Encourage young workers to think of their money in 'pots' put aside for different purposes by offering products that divide expenditure into categories such as rent, petrol, going out, saving for a holiday etc.
4. Encourage and enable families to adjust non-essential expenditure as quickly as possible when life-changing events occur, such as having a child, moving house or a reduction in household income.

Antony concluded:

*"This study is an important roadmap for the banks if they are genuinely serious about turning over a new leaf and putting their customers' best interests much higher in their priorities. Given that the British public now owns the majority of two of the major banks, the Government should put pressure on these businesses to act upon the four recommendations made in this report.*

*"Because the FWB index provides a ready-made and objective yardstick with which the success of a bank's efforts can be measured, the value of this initiative will be plain to see and the rest of the banks and building societies can be encouraged to follow suit. Banks are making moves in this direction but initiatives to really help consumers manage their money better are not yet in the high-street banks' DNA."*

The report has been sent to the Government, the Treasury Select Committee, the Conservative and Liberal Democrat parties, the FSA and the British Bankers Association. FairBanking hopes to meet each to discuss the report.

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### **Notes for Editors**

- Copies of the summary of the study can be downloaded at [www.fairbanking.org.uk](http://www.fairbanking.org.uk)
- Copy of the full report can be purchased from the Centre for the Study of Financial Innovation (CSFI) either by PDF download or hard copy by visiting [www.csfi.org.uk](http://www.csfi.org.uk)
- FairBanking is a new research-based charity set up by Antony Elliott, former Group Risk Director at Abbey National and holder of senior positions in financial services companies. FairBanking's mission is:
  1. To create banking developments that encourage individuals and families to manage their money better and thus improve their well-being.
  2. To share in an open and inclusive way the selected products and approaches, so as to promote maximum well-being. In particular, to enable developments to extend to the less advantaged in society including those less affluent and younger.
  3. To adopt specific measures of satisfaction which go beyond improving the consumer's economic circumstances.
- Iris Concise conducted research on behalf of FairBanking among 334 young workers aged 18-29, and 320 families aged 25-39 with a household income of between £15k and £60k. Interviews were conducted online and recruited from GMI's consumer panel. All respondents were screened to ensure that consumers with a range of household debt levels (defined by the ratio of unsecured borrowing to income) were interviewed. At the analysis phase, regression was employed to establish the statistically significant drivers of financial well-being.
- The CSFI is an independent think tank based in London. It was formed in 1993 to stimulate research into the future of financial services and to provide a neutral meeting ground for financial practitioners to share ideas and explore the road ahead.