FINANCIAL SERVICES INDUSTRY

BRIDGING THE GAP

THE ROLE OF BANKS AND FINTECHS IN AVERTING A MENTAL HEALTH CRISIS

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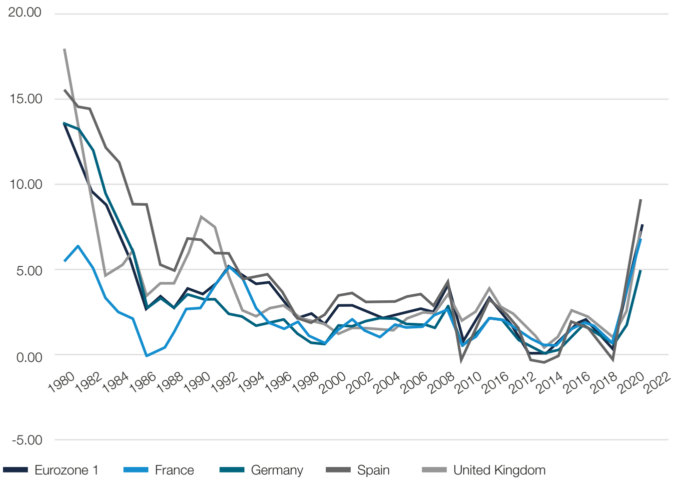
Introduction

Countries are experiencing the worst cost-of-living squeeze in a generation, with skyrocketing energy, food and fuel prices creating financial hardship for millions of people in the UK and across Europe.

With inflation at levels not seen since the 1980s bearing down on incomes, the number of UK households living from payslip to payslip is expected to double to 7 million by 2024, according to the National Institute of Economic and Social Research. In the eurozone, groceries and energy bills are quickly outstripping consumers' ability to spend amidst a fast-approaching recession. A sharp rise in interest rates is likely to worsen this budget crunch as mortgage repayments become unaffordable for many.

Inflation, Annual%



Source: World Bank, OECD

> "Digital now provides insights and solutions that were simply not available the last time we faced a cost-of-living crisis. This is digital's moment to show just how much it has transformed financial services."

A less explored – but equally worrying - dimension of this crisis relates to its impact on a nation's mental health. According to research by The Money and Mental Health Policy Institute, people experiencing mental health problems are three and a half times more likely to be in debt than those without. In that survey, 72% of respondents said that mental health issues had made their financial situation worse. Similarly, there is evidence from previous downturns to suggest that recessions are linked to a rise in mental illnesses, including anxiety, depression and suicides[1].

Sadly, much of this is already unfolding. A survey conducted by YouGov revealed that 55% of Britons felt that the cost-of-living situation has negatively impacted their health. Younger people, who are experiencing this degree of economic uncertainty for the first time, can be particularly vulnerable to money worries, with a separate study[2] showing that the rising cost-of-living is the leading cause of anxiety in their lives.

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[1] https://www.fph.org.uk/policy-advocacy/special-interest-groups/special-interest-groups-list/public-mental-health-special-interest-group/better-mental-health-for-all/the-economic-case/the-impact-of-the-uk-recession-and-welfare-reform-on-mental-health/

[2] https://newsroom.uk.paypal-corp.com/Research-reveals-how-Gen-Z-are-taking-control-of-their-financial-wellness

55%

of Britons felt that the cost-of-living situation has negatively impacted their health in 2022

72%

of people said that mental health issues had made their financial situation worse in 2022

13%

increase in credit card borrowing in June 2022, the fastest annual rate since 2005

20%

of clients looking for debt advice in July said the cost of living was primary reason

Sources: YouGov, StepChange, The Money and Mental Health Policy Institute, Bank of England

By supporting stakeholders during this crisis banks can show they are trusted partners

For banking institutions, the implications of this mental health emergency will be felt far and wide: from more customers needing support managing their money to their own workers and partners grappling with financial insecurity and related stress.

Banks' role in helping people cope with the crisis may also come under the spotlight due to increasing ESG scrutiny. Expectations from value-driven customers, employees and shareholders have never been higher, and failing to meet them can result in public backlash. Barclays, for example, was recently accused of cutting financial flexibility to clients at this challenging time, after it scrapped unused overdrafts with just a month's notice[3]. Regulators are monitoring banks' reaction closely, especially in the UK in light of the new standards for consumer protection introduced by the Financial Conduct Authority (FCA)'s Consumer Duty.

Moreover, with governments both in the UK and in Europe implementing huge support packages – from one-off benefits to caps on rent increases –, authorities are unlikely to show any patience with financial providers not doing their fair share to alleviate these issues. Society is also demanding banks to act, with a recent survey[4] showing that 57% of people see them as having a duty to help during difficult economic times, second only to the government.

> "The need to deal empathetically with vulnerable customers in what is an undoubtedly stressful time means digital will have to work side-by-side with human and physical services."

[3] https://www.bloomberg.com/news/articles/2022-09-26/64-think-banks-and-others-should-do-more-to-help-customers-through-crisis

[4] https://www.ft.com/content/3b09c6bb-c5fa-4113-802d-9326778dee5a

The good news is that the industry is better placed than ever to respond. Not only are banks better capitalised compared with the 2008 global financial crisis, but they have a new set of digital solutions at their disposal to respond and innovate quickly. For example, data has become the new oxygen for financial services firms over the past decade, helping shape everything from consumer experience to risk management and regulatory compliance. In the current environment it could play an even larger role by helping lenders identify vulnerability markers and personalise support to those who need it the most.

In this piece, we will discuss how banking players can leverage these advantages during this crisis to make a positive impact on customers – and society's - wellbeing.

Helping customers and employees with cost-of-living crisis

TRUIST

US Banking giant acquired start-up Long Game, which uses gamification to encourage youngsters to save more money

monzo

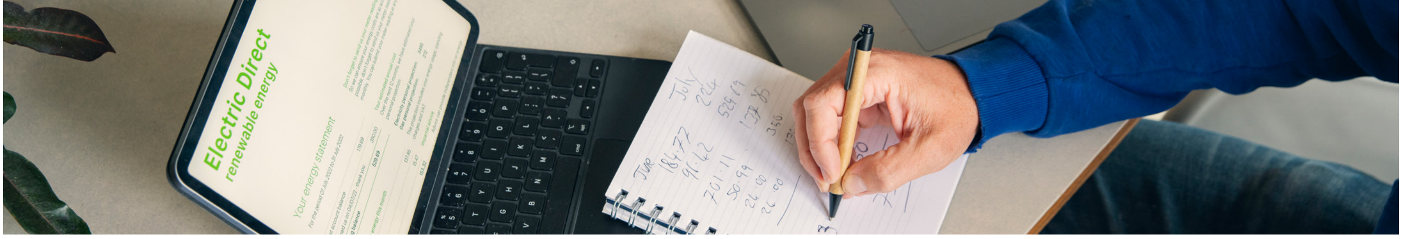
The UK fintech has doubled its specialist Vulnerable Customer team over the past year to offer advise to struggling customers

NatWest

UK high-street bank offer credit score tool allowing customers to check and improve their credit score history

LLOYDS BANKING GROUP

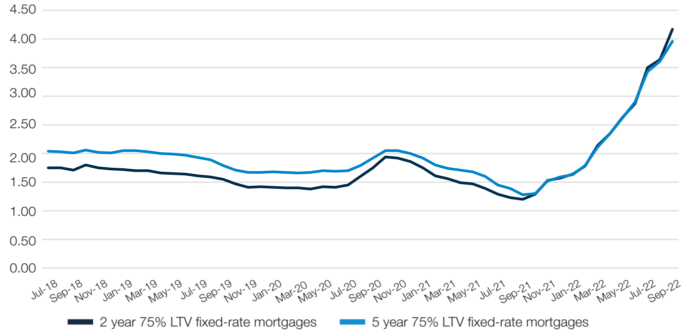
The UK bank is among institutions introducing one-off payments to its workforce to help with the cost-of-living crunch



Using digital – and people – to help customers navigate uncertain times

The worsening cost-of-living crisis is already affecting customer behaviour and changing demand for financial services. Data from the Bank of England shows that credit card borrowing in the UK rose at the fastest annual rate in July, with economists suggesting that some households are increasingly turning to borrowing to make ends meet. The central bank figures also revealed that families were saving less now than before the pandemic. In Europe, recent research[5] shows that one in five people are drawing from their savings because of the crisis. Meanwhile, debt charities are reporting a rise in new clients.

United Kingdom - Mortgage Rates (UK), Annual %



Source: BoE

In the past, banks typically responded to economic crises by increasing risk aversion and tightening their lending criteria. But today's regulatory and social landscape requires a more creative and sensitive approach - one that not only empowers people to manage and make more of their money but offers tailored options when they most need help. Digital is the enabler to deliver that.

Based on current practices noted in the marketplace, we recommend financial services providers to consider the following actions:

Identify early signs of vulnerability

Recent advances in Personal Financial Management (PFM) tools and Open Banking features allow financial services firms to take a more proactive role in improving their customers' financial wellness. Sensible use of transaction data can help identify indicators of debt earlier (e.g. a sudden drop in income, missed bill payments) and refer people to help more quickly. Similarly, behavioural data could also be harnessed to determine the best debt interventions for each client. Whilst adoption of Open Banking-enabled services is increasing, barriers to accessing consumers' financial data remain. UK fintechs have recently accused[6] credit card issuers of not giving full access to their own data, arguing that this has prevented them from offering personalised spending insights or ways to manage debt. When it comes to indicators of vulnerability in particular, the system still lacks a database to enable these markers to be collated and shared across banks and other stakeholders. Experian is leading a pioneer initiative in this space with its Support Hub service, which allows consumers to set up and share their support needs to multiple organisations, including financial services firms, telecom companies and utilities providers.

Promote wise spending and savings

Challenger banks and fintechs were the first to introduce smart budgeting tools that give customers the full picture of where their money is going, potentially enabling them to spend less and save more. These and other digital functionalities, such as merchant or gambling blocks, can help people avoid financial pitfalls in the current environment. In addition, there is an opportunity to take this service to the next level through automation and other technologies. For example, US-based fintechs including Digit and Douugh are using automation to make daily money decisions on behalf of customers, based on data such as bills, direct deposits and spending patterns[7]. Another innovative approach to financial planning comes from Truist, the US banking giant. The company recently acquired mobile savings start-up Long Game, which uses gamification and a rewards system to encourage youngsters to develop healthy financial habits.

Sharpen affordability models with data insights

Real-time insights into customers' disposable income can help make affordability assessments more sensitive to sudden changes in circumstances. With Open Banking, for example, lenders can access bank account data that is far more granular than what is seen in traditional processing. This helps them understand a customer's income and expenditure, ultimately leading to better, more personalised lending decisions. These, in turn, should broaden access to credit and protect people from overborrowing. Banks including Natwest Group in the UK have also created credit score features allowing customers to check their credit score history for free and in real time, alongside recommended actions to improve it. Finally, there should be a renewed focus on financial inclusion through lending specifically for affordable housing, inclusive products for the unbanked, no interest loans and consolidation loans for vulnerable customers.

Use digital to educate customers at scale on financial wellbeing

Now more than ever it is time for banking institutions to accelerate their financial education initiatives, and digital has the potential to take them to the next level. Digital tools such as game-based apps to teach financial literacy and money management skills can make the experience more enjoyable and engaging, especially for younger customers who might be looking for this type of support for the first time. Digital also brings the scale needed to reach more people as the crisis intensifies and hits large swathes of the population. In one example of how banks are using digital to augment their educational offerings, HSBC announced a partnership with The Sandbox earlier this year to provide virtual educational experiences within the metaverse. Others are acquiring or partnering with fintechs that teach financial literacy through interactive, gamified content. Informational campaigns should also be strengthened as more cash-strapped customers turn to credit for the first time or embrace novel products such as buy now, pay later (BNPL) in a challenging economic climate. Recent research shows that many people got into unmanageable debt due to BNPL lending[8], highlighting financial providers' duty to inform, educate and give sensible advice to customers around these offerings.

[5] https://www.moreincommon.com/our-work/navigating-the-cost-of-living-crisis/
[6] https://www.ft.com/content/48de4fe2-dd32-4b7e-a124-d71e0ac1ebf6
[7] https://www.bankrate.com/banking/fintechs-aim-to-automate-budgeting/
[8] https://home.barclays/news/press-releases/2022/060/retailer-support-for-regulated--buy-now-pay-later--products-coul/

Augment physical services with digital for improved relevance

In stressful times, human connection becomes more important than ever. But that does not necessarily mean that physical will be the channel of choice for vulnerable customers. For many, talking to someone about financial worries in the familiar space of their home, in a personalised manner, will be less traumatic than visiting a physical branch. Digital tools designed through a human-centric lens can facilitate that. Regardless of the channel, training of frontline staff to advise on financial and mental pressures, in an empathetic and efficient manner, should be a priority for banks. Monzo Bank, for instance, has more than doubled its specialist Vulnerable Customer team over the past year. Elsewhere, First Direct launched a “money worries” page on its website where people can speak directly with trained staff for support and guidance. Today’s situation may also require financial institutions to challenge established truths. Recent figures from the UK Post Office showed that more people are relying on cash to manage their budgets during this crisis, suggesting many are resorting to the tangibility of notes and coins to avoid overspending. Banks should see this as an opportunity, using digital services to emulate and improve on this experience.

Helping workers with digital support

Banks will have to manage the impact of the ongoing cost-of-living crisis within their own workforce and the wider community. Money worries not only affect employees’ mental health but have direct effects on productivity, presenting a “double whammy” hit for financial firms. Companies including Nationwide Building Society, Lloyds, Barclays, Virgin Money and Monzo have announced pay increases and one-off payments to low earners in recent months. Yet there is an opportunity for employers to go further, exploring salary advances via earned wage access (EWA) products as well as accelerating mental health and financial wellbeing initiatives that can be delivered digitally. Banks also have a major role to play in assisting other partners in the value chain. In fact, the FCA has recently warned banks to improve their treatment of struggling small business borrowers. This includes having clear policies to help staff identify and support these companies and treating them fairly when collecting and recovering debts. Banks should also explore tailored support in the form of specialist relationship managers and business hubs, and broaden their own financial and mental wellbeing programmes to include these stakeholders and their workers.

Digital can help financial services be a force for good in this crisis

Digital provides insights and innovative solutions that simply were not available the last time we faced a cost-of-living crisis. This is the moment for financial providers to capitalise on the benefits data and technology can bring to reduce financial anxiety and help improve the mental wellbeing of their customers.

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