

Making the Business Case for Financial Health

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The Center for Financial Services Innovation (CFSI) is the nation's authority on consumer financial health. CFSI leads a network of financial services innovators committed to building a more robust financial services marketplace with higher quality products and services. Through its Compass Principles and a lineup of proprietary research, insights and events, CFSI informs, advises, and connects members of its network to seed the innovation that will transform the financial services landscape.

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Executive Summary

Amid a rapidly evolving competitive and technology-driven landscape, financial service providers must continually revisit and evolve their business models and practices. A business strategy oriented around consumer financial health offers banks, credit unions, lenders, and other providers an avenue for growth, organizational resilience, and profitability. An essential element of this strategy is expanding the organization's definition of success to include positive outcomes for customers that are regularly measured and tracked, in addition to positive returns for the business. **Focusing an organization on improving consumer financial health marks a shift in corporate philosophy – from being in the financial services business to being in the financial health business – with the promise of returns for both customers and shareholders.**

In this brief:

- » What it means to be in the financial health business and why it matters for your organization
- » Early evidence to support the financial health business case
- » How to make the business case to understand your total return on investment

While publicly available data to support the financial health business case is still limited, especially in the U.S., there is evidence that a positive return on investment is achievable, as the organizations that are leading the financial health charge can attest. CFSI's client data demonstrates that financially healthy customers are significantly more profitable than unhealthy customers. Gallup finds that customers who say their bank looks out for their financial well-being are also much more likely to be fully engaged with their bank, leading to better financial outcomes for their bank. Companies that focus on maximizing customer value generated shareholder returns of 150% over a time period when the S&P 500 generated returns of just 14%.

A financial health strategy drives financial return because improving customer financial health will:

- » Result in larger deposit balances
- » Reduce delinquencies and charge-offs
- » Increase cross-sales
- » Boost customer satisfaction and retention
- » Drive employee engagement and retention
- » Foster goodwill with local communities and regulators
- » Grow brand value

Taking steps to understand and improve customer financial health will require investments that pay off over time. So, the business case must be expansive enough to account for the far-reaching effects of the strategy. This means thinking beyond the directly attributable cash flows to consider both short- and long-term impacts on customer lifetime value, operational efficiencies, and intangibles (such as reputational effects).

The data discussed in this brief illustrate what can be achieved by enhancing alignment between business and customer interests. While consumers want providers to help them make smart decisions to improve their financial health, few are finding what they seek. This market reality – combined with the potential for financial return – underscore the opportunity associated with investing to improve customers' financial health.

We invite you to engage with us on this topic. We welcome the opportunity to work with providers to leverage and augment existing data and grow the body of evidence around the financial health business case.

Introduction: Being in the financial health business

In an era of technology-driven disruption, a rapidly evolving (and expanding) competitive landscape, and significant financial insecurity among consumers, financial service providers must continually revisit and evolve their business models and practices. Banks, credit unions, and other financial service providers that adopt a consumer-focused, financial health-oriented strategy will enjoy a competitive advantage. Innovative providers – from small fintech firms to incumbents – are bringing to market high-quality solutions that help consumers improve their financial health. The explosion of fintech has demonstrated how technology and elegant user experiences can alter consumer behavior, and established firms – such as KeyBank and USAA – are making significant investments in customers' financial wellness (largely aided by technology-driven innovation). As the competitive landscape responds to the opportunity and consumer demand, it is imperative for providers to ask themselves how they plan to compete in the financial health marketplace.

Financially healthy customers have day-to-day financial systems that help them build resilience and seize opportunities. Financial products, services, and practices – as well as consumers' own behaviors – can contribute to or detract from an individual's ability to spend, save, borrow, and plan in ways that improve their financial health. More specifically, financially healthy customers have the following characteristics:



SPEND

1. Spend less than income
2. Pay bills on time and in full

SAVE

3. Have sufficient living expenses in liquid savings
4. Have sufficient long-term savings

BORROW

5. Have a sustainable debt load
6. Have a prime credit score

PLAN

7. Have appropriate insurance
8. Plan ahead for expenses

Orienting an organization around financial health means expanding its definition of success to include positive outcomes for customers that are regularly measured and tracked, in addition to positive returns for the business. Measuring consumer outcomes will provide the organization with a new way to identify customers' pain points and spot opportunities to address those needs with innovative solutions that drive growth and profitability. Most importantly, organizing around and measuring consumer financial health outcomes will allow the organization to understand whether its offerings are making a difference in customers' lives.

An article published in *Marketing Science* that explores the relationship between customer metrics and companies' financial performance noted, "while senior executives recognize the importance of customers, they still rely heavily on financial measures because customer metrics are not clearly defined."¹ To help tackle this challenge, CFSI developed a [financial health measurement framework](#) that includes eight essential financial health indicators. CFSI has also worked with financial service providers to develop more granular financial health metrics to understand consumer impact at the product and service level.

¹ Gupta and Zeithaml, *Customer Metrics and Their Impact on Financial Performance*, 2006.

The Shift In Corporate Philosophy



The [financial health journey](#) and measurement frameworks help guide companies as they transform how they make decisions, reward employees, and define and measure success. This fundamental shift in corporate philosophy – from being in the financial *services* business to being in the financial *health* business – benefits customers as well as institutions, providing the latter with a competitive advantage and positive financial return.

Designing products, services, and solutions to improve your customers' financial health will allow your company to better serve existing customers, attract new business, and lay the foundation for profitable, long-term growth over time. Your company can improve your customers' financial health by investing in three key areas:

- » **Products:** *Products, services, and tools to help your customers spend wisely, build savings, borrow responsibly, and plan for the future*
- » **Programs:** *Advice, guidance, and resources to help customers manage their financial lives*
- » **People and Places:** *Infrastructure, delivery channels, segment strategies, and employees to shape high-quality, differentiated customer experiences*

Investing in financial health does not exclusively mean building new products or services. Many organizations have existing offerings that can support financial health (for example, credit-building products, automatic savings features, etc). In that case, an appropriate financial health investment may be funding a campaign to increase uptake, or prioritizing an analysis to validate a policy change (for example, reducing check-hold times to help customers better manage cash flow).

Early evidence to support the financial health business case

In his book, *Reorganize for Resilience*, Harvard Business School's Ranjay Gulati writes that adopting an *outside-in* perspective – that is, focusing on creating and maximizing customer value instead of simply pushing products – enables organizations to outpace their competition. He focuses on nine companies that exemplify this strategy and reports that from 2001-2007 their total shareholder return was 150%, outperforming the S&P 500's returns of 14% over the same period; additionally, the companies enjoyed an average increase in sales growth of 134%, compared with a 53% average increase for the S&P 500.² Gulati's research demonstrates that there is a business case for deeply understanding customers' challenges and developing products and services that address them; it spanned a decade and covered a variety of industries, suggesting that the concept is applicable in a wide array of contexts, including financial services.

The following examples further illustrate the return that financial service providers can achieve by successfully aligning their business interests with the financial health of their customers. While the evidence is still limited, especially in the U.S., the data below sheds light on how a positive return on investment can be realized.

- » **Sacrificing fee income in the short-term to drive acquisition and retention in the long-term:** The National Australia Bank (NAB), one of the largest financial institutions in Australia, reinvented the bank's strategy to deliver "fair value" for customers and the community. Part of this effort included eliminating "unfair" retail banking fees, a move that cost the bank nearly \$300 million in lost revenue in the short term. However, the bank's larger "fair value" strategy simultaneously resulted in the acquisition of one million new customers, which enabled the bank to recover its financial position in less time than projected.³
- » **Helping struggling customers repay loans while reducing costs:** Another component of NAB's "fair value" campaign was the creation of an innovative loan repayment program to help customers struggling with a financial hardship. While helping over 100,000 customers, the program yielded a 20% reduction in loan defaults and saved the bank \$7.2 million in costs as bank clients voluntarily sought advice before a collections event.⁴
- » **Increasing cross-sales and customer lifetime value by adopting a financial health strategy:** Gallup found that consumers who believe their financial institution is looking out for their financial well-being are more likely to be fully engaged, generating financial returns for the institution. Specifically, these customers have a 13% higher penetration in credit products; a 22% higher penetration in investment, insurance, or advisory products; and are more loyal and more likely to consolidate their business with the institution.⁵

² Gulati, *Reorganize for Resilience*, 2009.

³ Bockstette, Pfitzer, Smith, et al, *Banking on Shared Value: How Banks Profit by Rethinking Their Business*, 2014.

⁴ Bockstette, Pfitzer, Smith, et al, *Banking on Shared Value: How Banks Profit by Rethinking Their Business*, 2014.

⁵ Youra, *Looking Out for Customers' Financial Well-Being Is Table Stakes for Banks*, 2014.

» **Improving financial health to drive customer satisfaction, which drives financial return:** One CFSI Financial Health Network member found that, holding income, age, and other variables constant, financially healthy customers are 1.6 times more likely to be satisfied with the financial institution, compared with financially unhealthy customers.⁶ While consumers want their financial service providers to help them make smart decisions to improve their financial health and well-being, few are finding what they seek; only 36% of customers believe their bank is looking out for their financial well-being.⁷ This reality underscores a significant market opportunity as a host of research demonstrates that improvement in customer satisfaction has a significant and positive impact on firms' financial performance. For example, one study with data from 45,000 customers across 450 bank branches found "satisfaction is positively related to customer retention, number of services used by a customer (cross-sell), and customer share-of-wallet... [Also,] customer satisfaction has the biggest impact on cross-selling."⁸

The financial institution-members of the CFSI Financial Health Network that have measured the financial health of their customers and connected that data to business metrics have found that there is a positive relationship between financial health and profitability. While the number of organizations to complete this level of analysis is still small, data analyzed to date shows that **financially healthy customers use more products, pay fewer fees, and are significantly more profitable than financially unhealthy customers** (in one case, up to 15 times more profitable). This data supports our hypothesis that financially healthy customers are more profitable customers, and highlights the opportunity associated with investing to improve customers' financial health.



Point of clarification

Does this mean companies should jettison financially struggling customers? No.

Not only would it harm a company's reputation, it would also be a misguided business decision, ignoring a massive opportunity. More than half of Americans (57%) – and more than two thirds of 18-35 year-olds (68%) – are struggling financially, in need of high-quality products and services that help them adopt and maintain financially healthy behaviors.⁹ Many financially underserved consumers are paying high rates to access financial services; for example, in 2016, financially underserved consumers spent \$51.7 billion in fees and interest on long-term credit products.¹⁰ Providers that disregard this acute consumer need and substantial market opportunity are overlooking a significant source of growth, ceding tomorrow's financially healthy customers to competitors that invest in helping struggling consumers improve their footing. Research demonstrates that there is a strong positive relationship between customer satisfaction and customer retention.¹¹

⁶ The regression analysis controlled for the following variables: household income, age, tenure, urban/rural status, and frequent use of online or mobile banking.

⁷ Youra, *Looking Out for Customers' Financial Well-Being Is Table Stakes for Banks*, 2014. Orem, *CUs 'Failing to Provide' Needed Services, Survey Shows*, 2017. Yurcan, *What Do Millennials Want from Banks? Everything. Nothing. Whatever.* 2016. GFK/Personetics Study, *Only 27% of US Consumers View Their Banks as "Trusted Partners,"* 2015.

⁸ Gupta and Zeithaml, *Customer Metrics and Their Impact on Financial Performance*, 2006.

⁹ Gutman, Garon, et al, *Understanding and Improving Consumer Financial Health in America*, 2015.

¹⁰ Wilson and Wolkowitz, *2017 Financially Underserved Market Size Study*, 2017.

¹¹ Gupta and Zeithaml, *Customer Metrics and Their Impact on Financial Performance*, 2006.

Making the business case

Being in the financial health business drives financial return because improving customer financial health will:

- » **Result in larger deposit balances** because customers who spend less than income, pay bills on time (that is, do not pay late fees), and save for short- and long-term needs will have larger account balances;
- » **Reduce delinquencies and charge-offs** because customers who have manageable debt loads, higher credit scores, and pay bills on time are less likely to default on their loans;
- » **Increase share of wallet** because customers who are saving and planning for short- and long-term goals will require savings vehicles, investing advice, insurance products, and high-quality loans;
- » **Increase customer satisfaction and retention** because customers who feel that their financial services provider has actively helped them achieve their financial goals (which ultimately help them pursue life goals) are more likely to be satisfied and loyal to the institution;
- » **Lower customer service costs** because (a) customers who pay fewer penalty fees and are better prepared to weather financial ups and downs place less of a time burden on customer service representatives, and (b) customers with manageable debt loads have fewer interactions with collections agents.

In 2016, CFSI began working with financial service providers to help them diagnose the financial health of their customers and employees, and to develop strategies and roadmaps to improve consumer outcomes.¹⁶ This work has led to conversations with providers about how they are constructing internal business cases to execute on their financial health strategies. It is clear that it is imperative to select the appropriate level and degree of comprehensiveness for the analysis.



Lessons from healthcare

In the early 2000's an important change began to take hold in the healthcare industry; patient-centered care – a model that puts the person at the center of healthcare decision-making rather than on the periphery – began to replace traditional, provider-driven models. The model has been recognized in the healthcare community as “a fundamental practice for the provision of high-quality care,” and data shows that it is associated with better patient outcomes and lower costs for providers.¹²

- » A 2007 study examined data for two comparable hospital inpatient units over five years, one of which implemented the patient-centered care approach and the other of which did not. It found that in each of the five years studied, the patient-centered facility consistently demonstrated “a shorter average length of stay than the control unit, a statistically significantly lower cost per case than the control unit... [and] higher-than-average overall patient satisfaction scores.”¹³
- » A 2014 article reports on an analysis which found that “incorporating evidence-based design elements into a 300-bed hypothetical hospital—including patient-centered features like healing gardens, sound-absorbing materials, and large windows—added an additional \$26.2 million to the cost of construction. However, an ROI was achieved in just three years, due to cost savings from reductions in patient falls, lengths of stay, and energy use.”¹⁴

In a paper published by the Healthcare Financial Management Association, the authors write that “patient-centered care has the potential to reduce adverse events, malpractice claims, and operating costs while improving market share.”¹⁵ This paradigm shift within the healthcare industry is instructive for the financial services market as there are analogous opportunities to diagnose and improve consumers’ financial health while generating returns for financial services institutions.

¹² Charmel and Frampton, *Building the Business Case for Patient-Centered Care*, 2008.

¹³ Charmel and Frampton, *Building the Business Case for Patient-Centered Care*, 2008.

¹⁴ Wagner, *The Business Case for Patient-Centered Facility Design*, 2014.

¹⁵ Charmel and Frampton, *Building the Business Case for Patient-Centered Care*, 2008.

¹⁶ Reflecting the findings of CFSI’s national study, our work with individual financial institutions reveals that customers across the country have a significant need for products and services that help improve their financial health. With [more than half of Americans struggling financially](#), the opportunity for providers is substantial and acute.

That is, a financial institution could estimate the return on investment (ROI) of a proposed initiative or tactic at any of the following levels:

- » **Account:** *Will the investment make individual accounts more profitable?*
- » **Customer (or household):** *Will the investment make individual customer (or household) relationships more profitable?*
- » **Portfolio:** *Will the investment make a product category, customer segment, or individual channel more profitable?*
- » **Organizational:** *Will the investment make the overall institution more profitable?*

Additionally, the revenue and expense line items included in an ROI calculation could be defined narrowly or in a more expansive manner. For example, a business case might estimate the potential impact on:

- » **Directly attributable cash flows:** *What incremental revenue will result directly from this tactic?*
- » **Customer lifetime value:** *How will this initiative contribute to the overall customer relationship – including areas that might be tangential to the tactic itself – impacting customer lifetime value?*

Customer lifetime value – the profitability of a customer’s entire relationship with a financial institution – is a function of the length of the relationship and the ways in which the customer interacts with the institution (that is, the number of products and services used and the nature of the customer’s engagement with them). Looking at industry data we see that “in most instances, customer acquisition and maintenance costs are too high for fleeting, single-transaction purchases or for short-term dealings to be profitable.”¹⁷ Several sources estimate that **it costs about five times more to acquire a new customer than it does to keep an existing one.**¹⁸ Bain & Company (one of the creators of the Net Promoter Score), estimates that, in retail banking, the lifetime value of a promoter is worth 2 to 2.5 times that of a detractor, largely due to promoters’ tendency to buy more products, have longer tenures, and recommend the bank to others.¹⁹ Hence, finding ways to reduce customer churn and strengthen customer engagement and loyalty can be extremely profitable.²⁰

- » **Employee engagement and retention:** *How will this strategy improve employee satisfaction, reducing turn-over and boosting productivity?*

Positioning and empowering employees to have a positive impact on customers’ lives can drive employee satisfaction, which can, in turn, drive retention (lowering turnover costs). One study finds that employees who derive meaning from their work are three times more likely to remain with their employer than those who do not.²¹



Spotlight on Employees

Another strategy for driving employee engagement and retention is to help improve employee financial health. Roughly 85% of Americans are anxious about their financial lives, and financially stressed workers are less productive, exhibit higher rates of absenteeism, and generate higher medical care costs. Dealing with financial matters on the job alone could cost employers \$7,000 per employee per year. For a more detailed exploration of workplace financial health and how companies can begin to address both the challenge and corresponding opportunity, see [Employee Financial Health: How Companies Can Invest in Workplace Wellness](#).

¹⁷ Lax, *New Customer Retention: A Fundamental in Retail Financial Services*, 2016.

¹⁸ FPS, *The Cost of Customer Churn*. Fisher, *2016’s Most Important Customer Loyalty Statistics*, 2016.

¹⁹ Bain & Company, *Customer Loyalty in Retail Banking: Global Edition 2014*, 2014.

²⁰ For example, according to a 2006 case study, Wells Fargo estimated that “for every 1% reduction in customer churn it will add \$20 million to net profits.” Source: FPS, *The Cost of Customer Churn*.

²¹ Schwartz and Porath, *Your Boss’s Work-Life Balance Matters as Much as Your Own*, 2014.

- » **Brand value and reputational effects:** *How will this initiative improve our reputation in ways that accelerate growth, increase goodwill with local communities and regulators, and/or instill a corporate culture that helps preclude misconduct?* The reputational toll of an accounting scandal, for example, can be as high as 27% of the pre-scandal share price, and effects of corporate scandals can extend beyond the firm to have a lasting impact on the career trajectories of individual executives.²²

Figure 1: Summarized Business Case For Financial Health

» Improvement in Customer Financial Health	» Impacts Key Business Metrics	» Drives ROI at Multiple Levels
SPEND 1. Spend less than income 2. Pay bills on time and in full SAVE 3. Have sufficient liquid savings 4. Have sufficient long-term savings BORROW 5. Have a sustainable debt load 6. Have a prime credit score PLAN 7. Have appropriate insurance 8. Plan ahead for expenses	» Larger deposit balances » Reduced delinquencies and charge-offs » Increased cross-sales and customer lifetime value » Higher customer satisfaction and retention » Lower customer service costs » Improved employee engagement and retention » Enhanced reputational and brand value	» Account » Customer/Household » Product » Customer segment » Channel » Company

Taking steps to understand and improve customer financial health will require investments that pay off over time. So, the business case must be expansive enough to account for the far-reaching effects of the strategy. Pursuing a financial health strategy that requires long-term investments may be daunting for organizations, particularly publicly traded companies, which face short-term pressures in the form of quarterly reporting obligations. However, in a 2017 analysis, the McKinsey Global Institute concluded that companies with a long-term outlook outperform their shorter-term peers on a range of key economic and financial metrics. While long-term firms invested more than other firms from 2001 to 2014, their revenues, earnings, and economic profits significantly outpaced that of other firms (by 47%, 36% and 81% respectively).²³ Concurrently, some in the investor community have begun advocating for long-termism and a shift toward a more balanced approach to maximize value for all stakeholders. Notably, Larry Fink, Founder, Chairman and Chief Executive Officer of BlackRock, the world's largest asset manager, has criticized companies for being too focused on quarterly results and has called on them to invest time and resources to foster long-term value.²⁴ (He also notes the important role for investors in providing "patient capital.") Organizations must think broadly about both the short- and long-term benefits that will result from a financial health strategy so that the investment's value and potential return is assessed in a comprehensive manner.

²² Andrews, Ed deHaan: [How to Rebuild Trust After a Scandal](#), 2014. Groysberg, Lin, et al, [The Scandal Effect](#), 2016.

²³ Barton, Manyika, Koller, et al, [Measuring the Economic Impact of Short-Termism](#), 2017.

²⁴ Fink, [2018 Annual Letter to CEOs](#), 2018.

Getting Started

As discussed above, there are many levels at which one could estimate ROI (from the account level to the organizational level) as well as differently-sized tactics one might pursue to execute on a financial health strategy (from introducing a new feature or changing a policy to fundamentally transforming back-end technology to enable a new suite of products or consumer experiences). We encourage providers to think broadly and creatively about the business case, and – most importantly – to just start. The following are a few ideas about how you might begin:

- » **Top-down:** Consider the potential for return in your own organization. What are the major strategic challenges that the organization is tackling? Could investing in financial health measurement and improvement move the needle? If so, how much would that be worth to the organization? For example, if you could reduce churn by X% due to an investment in financial health, what impact would that have on other key business metrics? How valuable would that be? How much investment would that merit?
- » **Bottom-up:** Begin exploring the layers of impact that any individual financial health tactic or strategy might have. Once you have outlined the directly attributable revenue, consider the impacts on customer lifetime value, employee engagement and retention, brand value, reputational effects, and competitive positioning in the marketplace. How expansive might the impacts be? What would the shorter-term results look like versus longer-term returns? What internal and external benchmarks are available to help you develop realistic estimates?
- » **Measure financial health:** If you have already measured the financial health of some or all of your customers, begin examining the connections between your financial health indicators and other business metrics. What you learn about the profitability and lifetime value of financially healthy versus unhealthy customers may help you build the case for investing in financial health. If you have not yet measured the financial health of your customers, consider doing so, either by deploying a survey or by examining your existing data to understand what it reveals about the financial health of your customers. Without a mechanism to measure and track financial health over time, you will be unable to understand whether your financial health investments are paying off for the customer.

Engage With Us

As we continue to develop consumer financial health insights and frameworks, we invite you to engage with us on this topic. We recognize that there are significant open questions related to this topic, including how large of an investment is required and how long does it take to move the financial health needle? Undoubtedly, the answers to these questions will vary based upon the institution, customer group, and financial health tactic. We are actively seeking opportunities to work with providers to understand business case learnings and challenges, dig into available data, and design and execute studies that help us better understand the consumer and business impacts of improving financial health.

- » For members of the CFSI Financial Health Network, the [2018 Financial Health Leaders](#) program includes an incentive to share confidential business case data with us.
- » For financial service providers of all types, if you are interested in exploring ways to collaborate on this topic, please [contact us](#).
- » To stay up-to-date on our work and insights related to the financial health business case, sign up for our newsletter and/or follow us on social media.