Fairbanking Ratings Report

A Tipping Point in UK Banking Culture?

thefairbanking foundation®

About The Fairbanking Foundation:

The Fairbanking Foundation is a charity dedicated to encouraging and helping banking institutions to improve the financial well-being of their customers and thereby the UK public as a whole. Our work is designed to provide well-researched, independent and insightful new input to assist in producing financial products that benefit customers. In 2011 the first Fairbanking Marks were granted for products that have features which help customers alter their financial behaviour. In 2013, the Fairbanking Foundation became the first certification body in the UK to be accredited by the UK Accreditation Service for meeting international standards.

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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Background

The Fairbanking Foundation has spent just over eight years encouraging UK financial institutions that it is in their own best interests to help their customers to manage their money better and become well informed for making financial decisions. Progress is being made.

This is the Foundation's fourth ratings report. It is substantially more ambitious than its predecessors, and is based on a comprehensive survey of 31 banking institutions – including five of the six largest High Street providers.

The intention of the report is to highlight those financial products – and their key features – that have the potential to improve the financial well-being of the individuals who use them. The aim is to generate less anxiety and greater satisfaction among customers – while, at the same time, providing both manageable credit and adequate savings. Recent statistical work from the Money Advice Service has shown that helping people to build financial confidence, manage their debts, actively save and have greater engagement will improve well-being for the UK population. The longer-term goal must be to ensure that the individual is in charge of his or her financial affairs.

Since the Fairbanking Foundation's first report, there has been real progress – at least some of which can be attributed to the impact of previous Foundation reports.

Over the years, we have developed a methodology that is based on evidencing customer outcomes. This has led the Foundation to grant its Fairbanking Mark certificate to 27 products from 15 institutions, covering regular savings products, personal loans, credit cards and current accounts (with and without overdraft facilities). The first Fairbanking ratings report in 2010 found just seven products that might achieve the standard required of an equivalent Fairbanking Mark – clear evidence of the progress being made. We are now expanding our coverage to mortgages, student current accounts and children's savings accounts; we intend to offer a Fairbanking Mark certification for these products in 2017.

Executive Summary

The general conclusion from the many post-crisis reviews of UK banking was that financial institutions that were fundamental to the economy had lost their sense of purpose, along with their reputation for providing a safe, trustworthy service to customers. Despite this, the majority of customers remained grudgingly loyal to their bank, no matter how poor the service they received.

In 2008, when we set up the Fairbanking Foundation, one of the premises on which it was built was that banking should be more like a "financial NHS", catering to the financial health of its customers, and less like a cocktail bar, pushing drinks at customers who had already had enough.

Not surprisingly, this wasn't a view shared by the industry itself. Nevertheless, over the last few years, there have been signs that the UK banking industry is starting to accept its broader obligations. Indeed, we may be close to a tipping point: banking institutions are increasingly aware of their social responsibilities – and are finally starting to put their aspirations into practice.

Banking should be more like a "financial NHS", catering to the financial health of its customers, and less like a cocktail bar, pushing drinks at customers who had already had enough.

It is not just the Fairbanking Foundation that is responsible for this (though we would like to think that we have played a part). Technology, regulation, behavioural insights and even peer pressure have all played a role:

Technology: Technological breakthroughs take time – for development and for implementation. The good news is that, after delays that sometimes seemed interminable, enhanced services to help customers are appearing. These services are from both the maligned legacy systems and the shiny new platforms. Yes, there are problems, notably security. But the sense is, increasingly, that the industry is not just aiming at short-term profits. It is genuinely trying to develop the right kind of message, and it is willing to experiment. In particular, technology is enabling the implementation of behavioural solutions through salient messages that motivate customer action, engaging tools and real-time feedback.

Regulation: Here, too, we have seen positive change. The focus is increasingly on outcomes for customers, rather than on principles and processes. It cannot be the whole solution to a cultural problem, but it has a role to play. The recent reviews of current account and credit card regulation by the Competition and Markets Authority (CMA) and Financial Conduct Authority (FCA) are significant milestones. Equally, the Lending Code has recently been amended to focus more on customer outcomes. And we are pleased to see that the FCA is undertaking its own research into customer behaviour, which should lead to more change.

Behavioural insight: As the FCA is discovering, looking at customer behaviour helps us understand what customers really need – and why historically, banks have exploited these insights, often to the detriment of customers. Now, however, there is the possibility of using behavioural research positively, for the good of the consumer.

Peer pressure and competition: We believe that, over the last few years, reports like this, (coupled with the increasing visibility of the Fairbanking Mark) are having an impact – on customers, on institutions and on the products being offered. That creates the possibility of a positive feedback loop, in which institutions will compete with each other to offer genuinely better products, and in which customers will become progressively better informed about the products on offer.

The report highlights many of the significant innovations that are taking place across the banking industry, and that have the potential to help customers, particularly less affluent customers, to improve their financial well-being. Some come from established institutions – e.g. the B Account (Yorkshire/Clydesdale), and Barclays Bank Account and Regular Savings. Others – such as the U Account (Ffrees) and Squirrel – are from the newcomers. Although not all of the challenger institutions yet offer products that qualify for a Fairbanking Mark, there are several that may be eligible by late 2017. These include Atom, Loot, Monese, Monzo, Neyber, Salary Finance, Starling and Tandem. There are signs that newcomers are putting the well-being of customers at the heart of their offering.

Summarising this year's best in class, there is much to be proud of

Current accounts with overdraft: This is an area where there has been real improvement. The B Account from Clydesdale/Yorkshire Bank is a potential 5 Star product, with Barclays Bank Account granted a 3 Star Mark following assessment in 2015; and further improvements are planned in 2017. All the major financial institutions have made significant improvements to their product offerings in this area.

Financial institutions are clearly keen to acquire students as customers – which tempts them to offer inappropriate products.

Current accounts without overdraft: This area has also seen an improvement, in part because of the offerings by challenger institutions. The highest rated is the U Account, which has the potential for a 5 Star rating.

Credit cards: Capital One is the highest rated provider in this area, with a 4 Star rating, following assessment and certification in 2015. RBS/NatWest also have a product with many new features and have been granted a 3 Star Fairbanking Mark following assessment.

Personal loans: A lot is going on in this area, and there are now nine institutions (both banks and credit unions) that have been assessed and granted a Fairbanking Mark. Credit unions are able to offer personal loan products to their members that are as good as or better than those offered by High Street banks. Lloyds/Halifax/Bank of Scotland have a 5 Star Fairbanking Mark, but the product with the most features is from Santander.

Regular savings: In this product category, Squirrel has taken over from RBS/NatWest as the provider of the highest potential rated product. Barclays launched many new features at the end of 2016 and its account has the potential for a 5 Star Mark.

Three new product lines have been included in this Ratings Report for the first time. All are particularly important for less affluent customers – and all have the potential for significant improvement.

Children's savings: A review of the literature emphasises the importance of parental involvement and child-friendly communication. For the moment, established product providers are lagging behind new Fintech-based entrants like Osper and goHenry. It is particularly disappointing that the transition from a children's account to an adult account is still not treated as an educational opportunity by providers.

Student current account: There are opportunities missed here, too. The providers that presently offer students overdraft facilities tend not to be equally focussed on providing the tools that might help those students control their spending. At the least, account providers should check that students do not already have overdrafts with other providers, in general, overdrafts are unsuitable for students struggling to get through a term. There is much support that could be provided, including a student being able to deactivate their debit card (e.g. when going out for the evening), weekly spend alerts and weekly spend limits. Financial institutions are clearly keen to acquire students as customers – which tempts them to offer inappropriate products.

Mortgages: In the Foundation's opinion, there are several areas where what is on offer varies and where there is a serious potential for customer detriment:

- *Costs* – It is important that customers should understand all the cost and expenditures both certain and potential e.g. having a buffer and taking into account interest rate increases.

- *Prepayments and underpayments* – There is a clear advantage to a mortgage product with enough flexibility to absorb temporary change in circumstances.

- *Insurance arrangements* – Part of the mortgage process should encourage the customer to consider all insurances and to periodically review if circumstances change.

- *Retirement* – the product or service has features that create flexibility in the event that a mortgage is not repaid prior to retirement.

Conclusion

In the opinion of the Fairbanking Foundation, a tipping point has been reached in the provision of retail banking services: a combination of financial technology, regulation, competition and insight from behavioural economics means that customers now have the right to expect better service and better products from financial service providers. That applies to less sophisticated and/or less affluent customers as much as it does to those who are wealthier and/or better informed. Fortunately, there are signs that this message is now being taken seriously.

In particular, there have been significant improvements in the type of current accounts (with and without overdraft) and regular savings accounts that are on offer. Credit card issuers have made less improvement in general, but more should result from the FCA review and thanks to better use of technology.

Next in line must be:

- improvements in the mortgage offerings, particularly for first time buyers; and

- better products aimed at students and children.

Customers now have the right to expect better service and better products from financial service providers.

Although there are some examples of good products, there is enormous scope for improvement.

This is an exciting time. Although there have been significant improvements in the quality of the financial products on offer, with more on the way, there is still much to do. More innovation to assist those that are not so technologically savvy is needed, interlinked with overcoming some customers concerns about the security of online accounts.

Hopefully, by the time the Fairbanking Foundation's next report is published, we will be further along the road to a marketplace that offers better products, more financial security and a good deal less anxiety to the more vulnerable members of UK society.

1. The Fairbanking Mark

The Fairbanking Mark is a product certification granted by The Fairbanking Foundation. The Foundation is a not-for-profit, research and advisory body created to assist providers of retail banking products to improve the financial well-being of their customers. The 'Fairbanking Mark' is granted in three, four or five star versions, based on an assessment of the financial well-being that the product delivers.

The Fairbanking Mark certification scheme has been granted accreditation by the UK Accreditation Service, and is the first accredited scheme for financial products to operate in the UK. Its certification procedure is similar to such bodies as the British Standards Institute (the "kitemark").

Each product is tested against relevant criteria, derived from customer research and academic/behavioural theory. A crucial part of the testing is independent research to ensure that the product's relevant features have been sufficiently effective that customers are changing their behaviour in beneficial ways.

There are five existing "product specifications" available for certification under the Fairbanking Mark:

- Current Accounts (with and without overdraft)
- Credit Cards
- Personal Loans
- Regular Savings

There are currently 27 products with Fairbanking Marks. 5 products have 3 Star Marks, 4 products have 4 Star Marks and 18 products have 5 Star Marks.

In this report, potential features for a Mark for Children's Savings, Student Current Account and Mortgages are outlined and we are aiming to have products assessed for these specifications in 2017.

Once an application for a Fairbanking Mark has been received, the product goes through a rigorous five-stage assessment and certification process:

1. Star Rating Review

The product features are reviewed against the appropriate criteria – separate specifications have been drawn up for regular savings, credit cards, and current accounts (with and without overdrafts).

An initial star rating is proposed against which the product will be fully tested and validated by the assessment process.

2. Customer Survey

A product-specific survey is designed to test whether customers are using the relevant product features that support the proposed star rating, and to gather examples of how customers are using those features. This survey is conducted by an independent market research company, with questions set by the Fairbanking Foundation. Ipsos Mori have undertaken all the customer surveys for Financial Institutions that have been granted a Fairbanking Mark in this report.

Ipsos

3. Product Research

Product descriptions, operational procedures, promotional materials and other relevant materials are reviewed by a product assessor to understand how the product works in practice. Also, fairness factors are reviewed. These vary for the different product specifications, but include:

- A review of product-specific complaints received by the organisation
- Ensuring that interest charges and fees are within acceptable bounds for the product compared to the market, and that they do not lead to problems for customers
- Assurance that there are no restrictive practices, such as compulsory cross-selling, relating to the product.

A crucial part of the testing is independent research to ensure that the product's relevant features have been sufficiently effective that customers are changing their behaviour in beneficial ways.

4. Assessment Panel

The Fairbanking Mark Assessment Panel is an independent body that reviews all product assessments carried out by the Fairbanking Foundation. An Assessment Report is submitted to the Panel, which then decides whether to grant a Fairbanking Mark, and what star rating to award.

5. Documentation and Monitoring

A Fairbanking Mark licence is granted to successful applicants for the product that has been certified. This sets out in detail how the Mark may be used. The Foundation carries out a programme of ongoing monitoring to ensure that the terms of the licence are adhered to, and that the product continues to meet the requirements of the Fairbanking Mark and Star Rating.

2. Overall Results

The criteria used for rating regular savings products and personal loans are almost unchanged. The current accounts (with and without overdraft) and credit card survey have been enhanced to include other features, and the children's savings, student current account and mortgages survey are new. The ratings in this report are based on a combination of survey results, desk research and direct contact with financial institutions. The features for each product are contained in Appendix 3.

Current accounts with overdraft: There have been substantial improvements by many banks in this area, which have led to an increase in the average rating of the top 10. Clydesdale Bank has launched the B Account, which enabled it to overtake Lloyds Bank. Barclays Bank was granted a 3 Star Mark in 2015 for the Barclays Bank Account and has a planned launch of additional features in 2017 that may enable it to obtain a 5 Star Mark in the future.

Current accounts without overdraft: Figure 2 shows that thinkmoney was granted a 4 Star Mark for this category in 2012 and have the potential to be a 5 Star Mark in the future. U has the potential to be a 5 Star Mark.

Credit cards: This category has shown strengthening with two new Institutions RBS/NatWest and Capital One obtaining Fairbanking Marks. Capital One a Four Star Mark holder has overtaken Barclaycard as the best in 2016. (see Figure 3) There has been considerable change in the scoring of the alerts and messages category to reflect that customers now expect mobile services and apps to be available as the norm on their account.

Figure 1: Current Account With Overdraft products – summary results

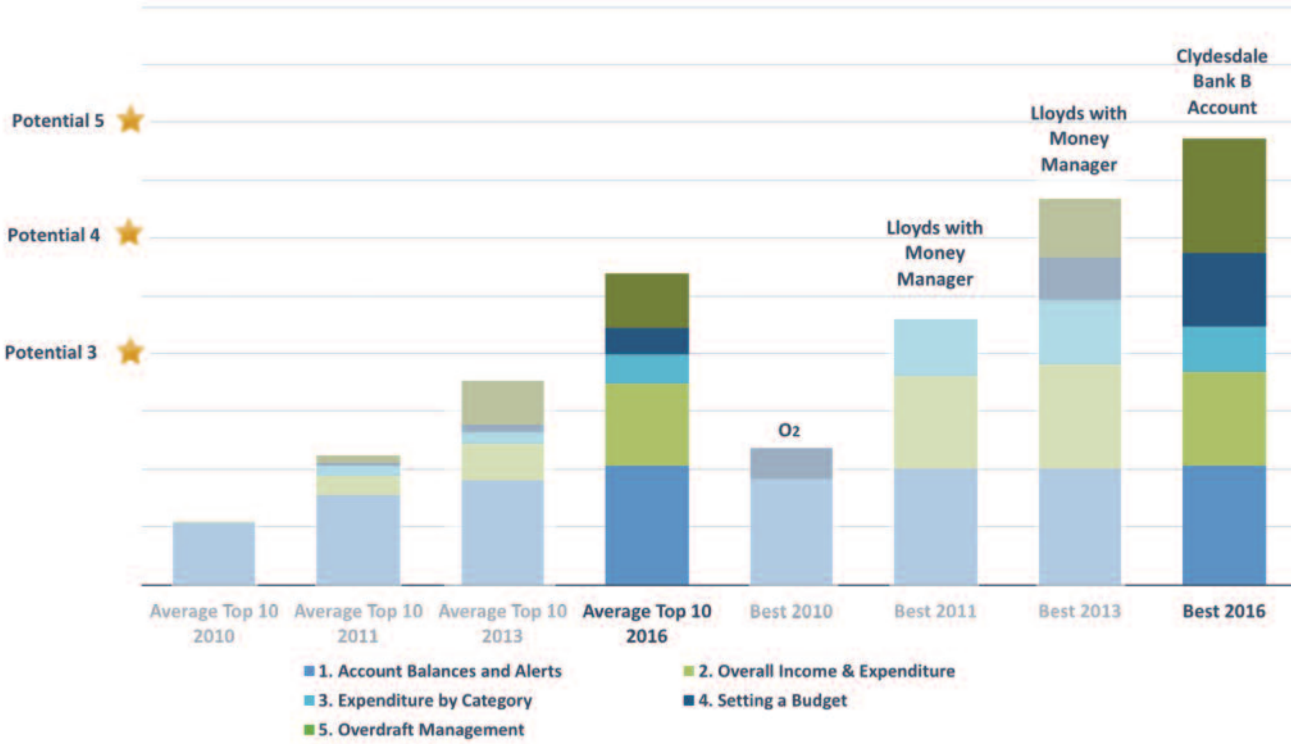


Figure 2: Current Account Without Overdraft products – summary results

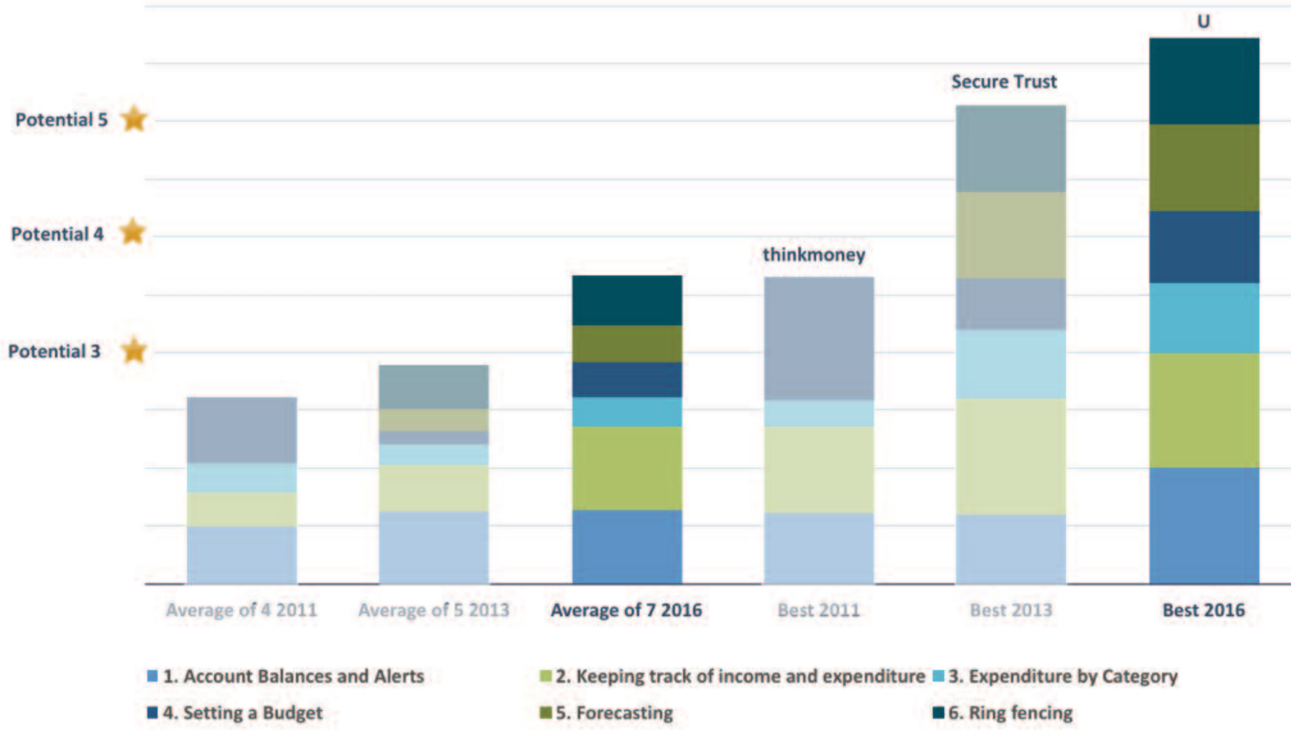


Figure 3: Credit Card products – summary results

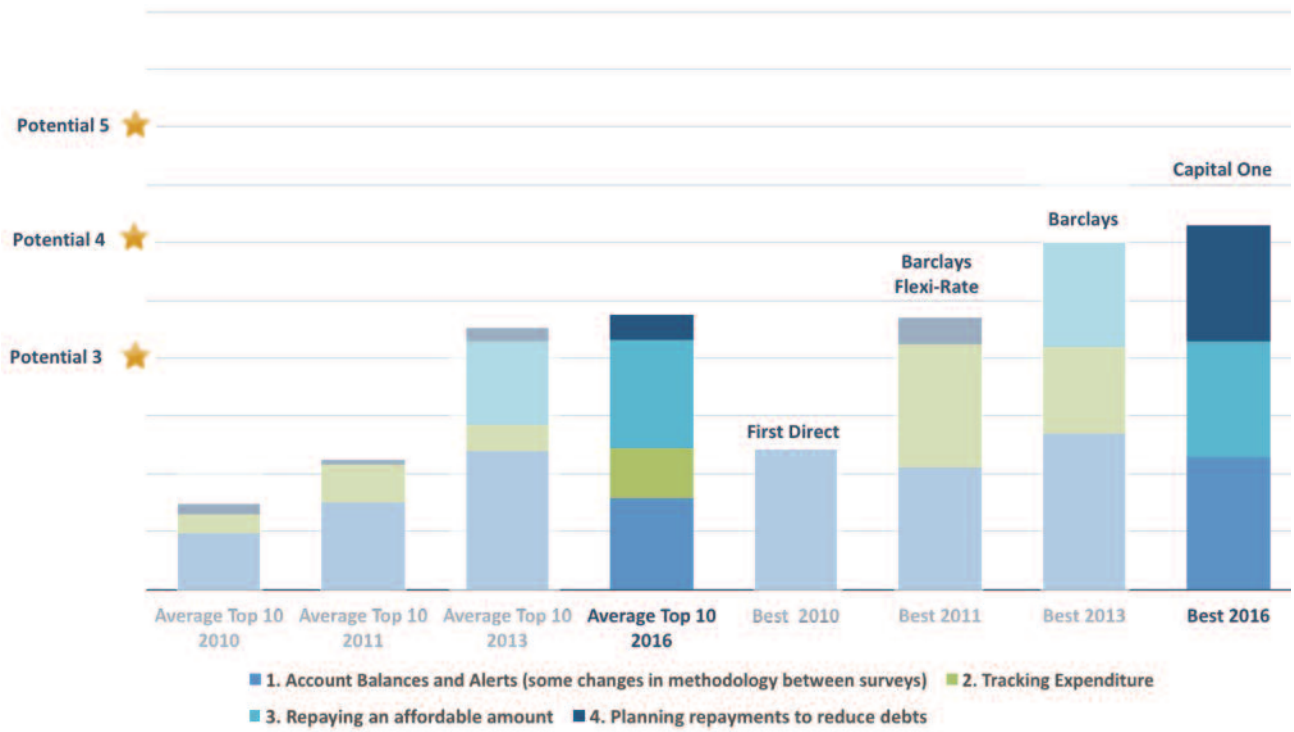


Figure 4: Personal Loan products – summary results

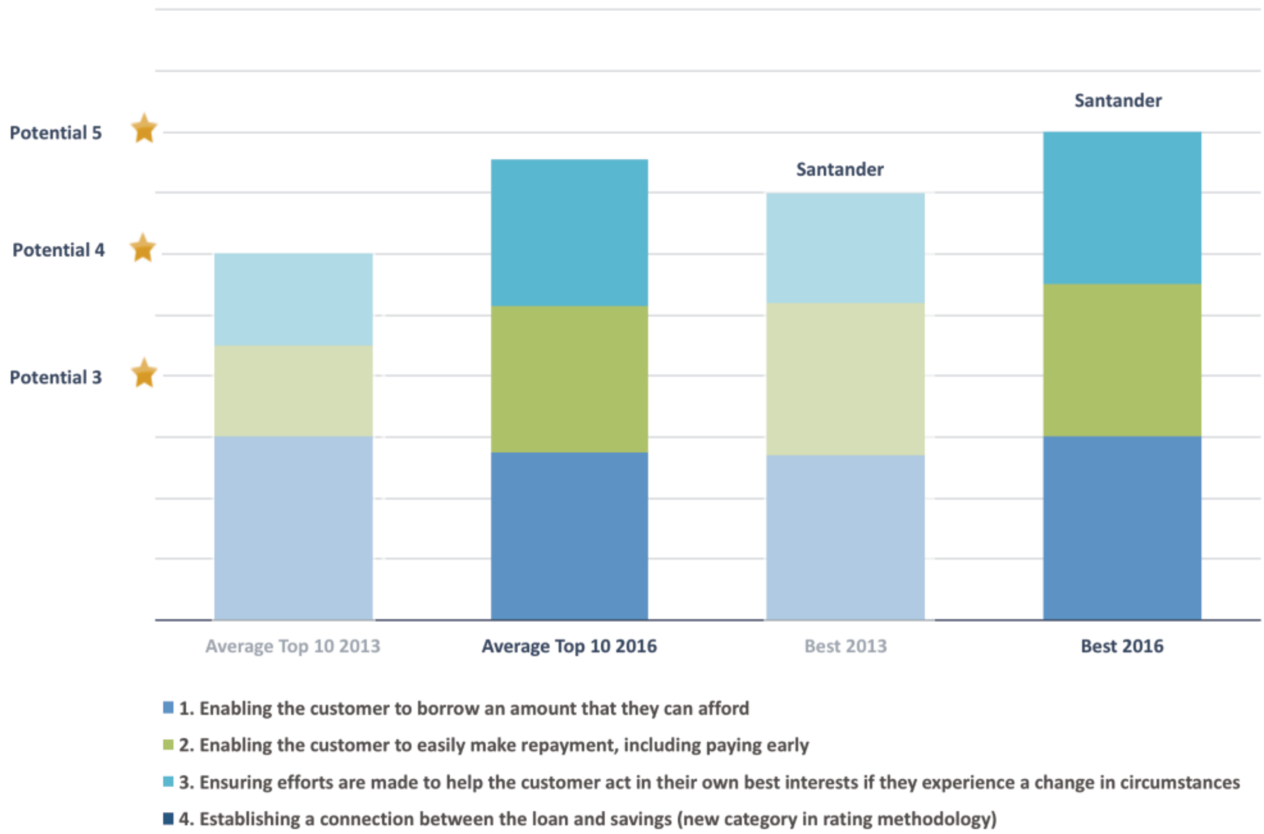


Figure 5: Personal Loan products – summary results for Credit Unions

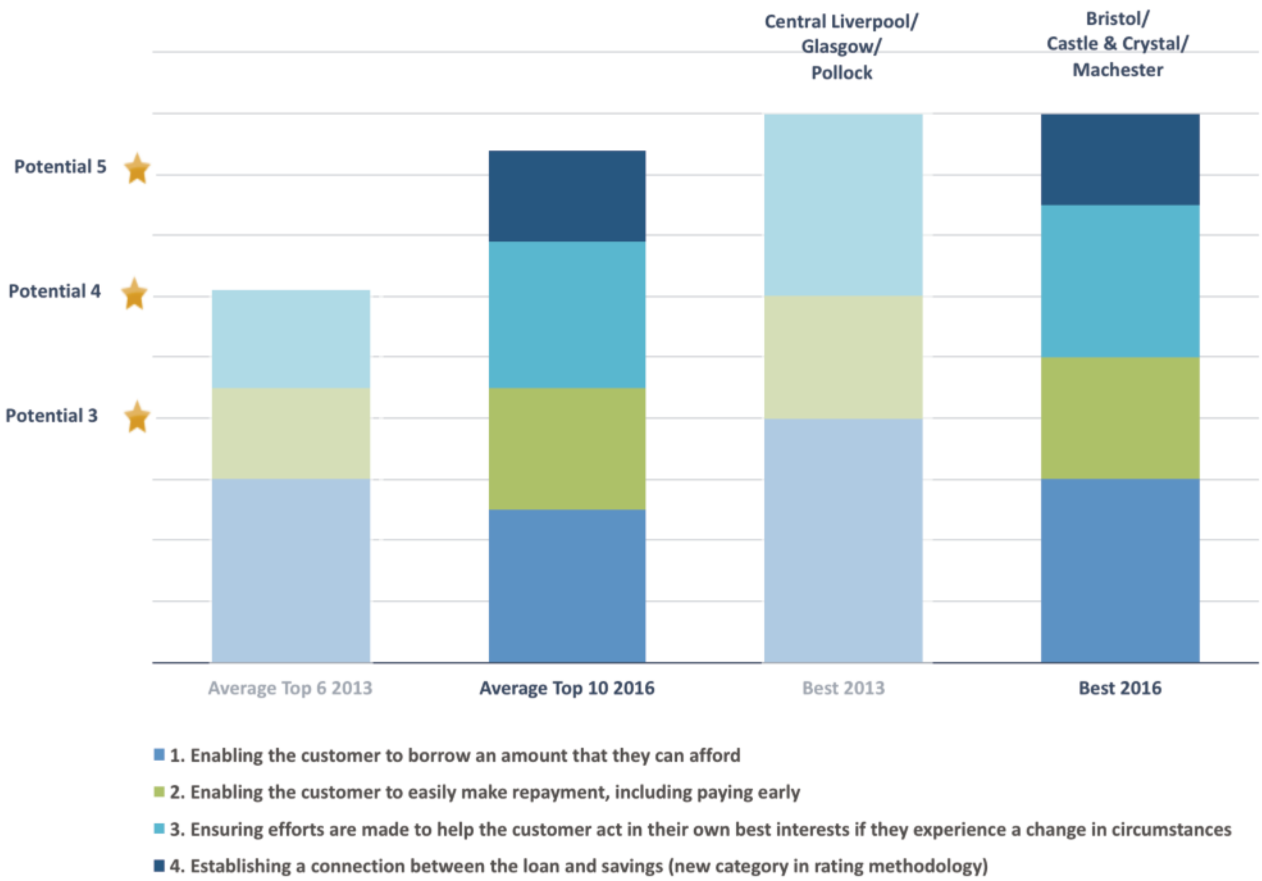
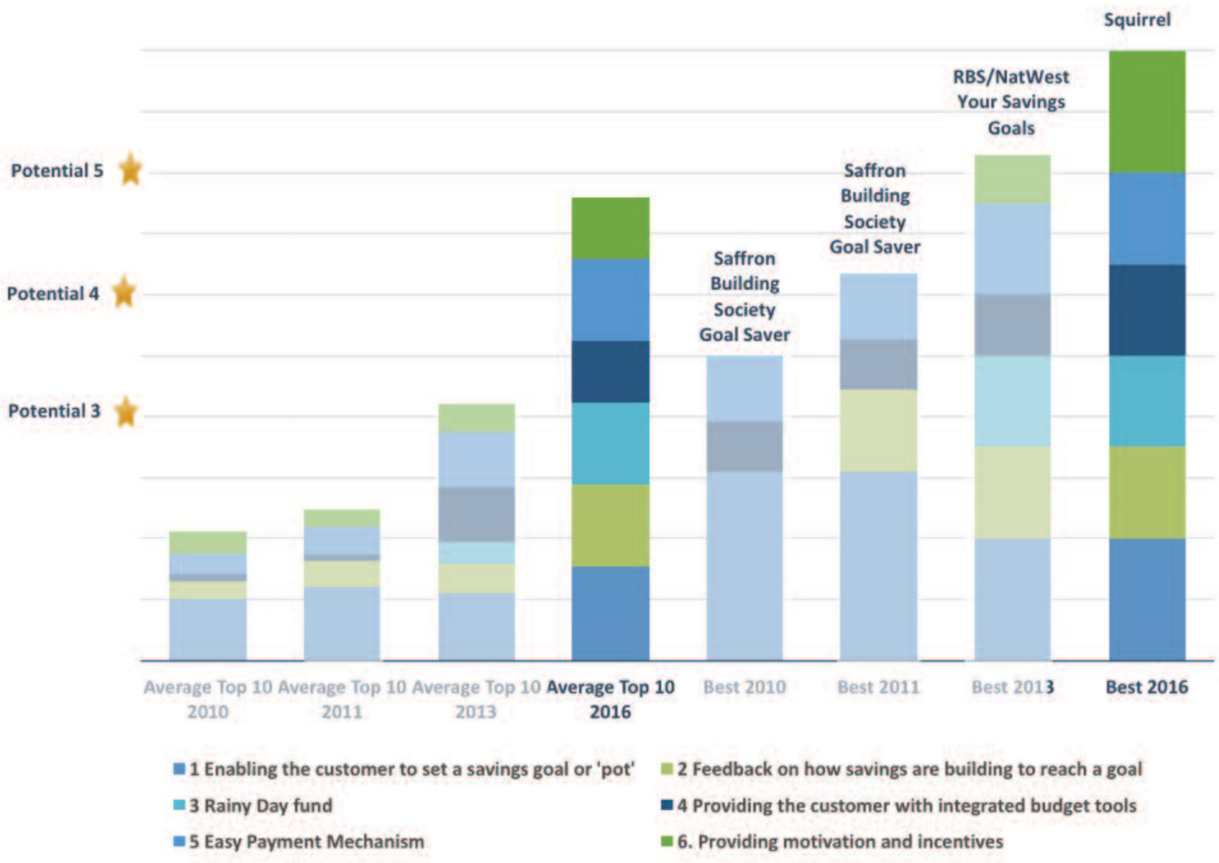


Figure 6: Regular Savings products – summary results



Personal loans: It is very encouraging that since the last report nine financial institutions have applied for a Mark and been granted either a 4 or 5 Star Mark. Figure 4 shows the personal loan products and Figure 5 shows the summary results for credit union loan products.

Regular savings: Squirrel's savings product has taken over from RBS/NatWest's "Your Saving Goals" product as the top-ranked in the UK.

Results are included in the report for three new products: mortgages, children's savings accounts and student current accounts. The relative position of different organisations is largely based on self-reported features, but this has given sufficient information to determine whether there is scope to provide a certification. A potential certification has been developed and it is hoped that in 2017 there will be applications.

Children's savings: There is a lot of scope for improving the quality of savings accounts intended to be used by children, potentially with parental support. Osper and goHenry show what can be done as an adjunct to a prepay card with a potential for a 4 Star Mark. However, most of the features could be provided digitally by more mainstream providers.

Student Current Accounts: Barclays may have the best student current account in terms of features to help the student manage their money with a potential 4 Star Rating. It is hoped that improvements would be made to the offerings in general before applications are received for the Fairbanking Mark.

Mortgages: The institutions that responded gave very full replies. Based on the responses, Coventry Building Society has the strongest potential for a 5 Star Rating followed closely by RBS/NatWest and Santander. The method of delivering features was different by institution and without testing, it is very unlikely that all are effective for customers. Hopefully in 2017 applications will be forthcoming which will enable the quality of these products and services to be substantiated.

3. Current Account With Overdraft

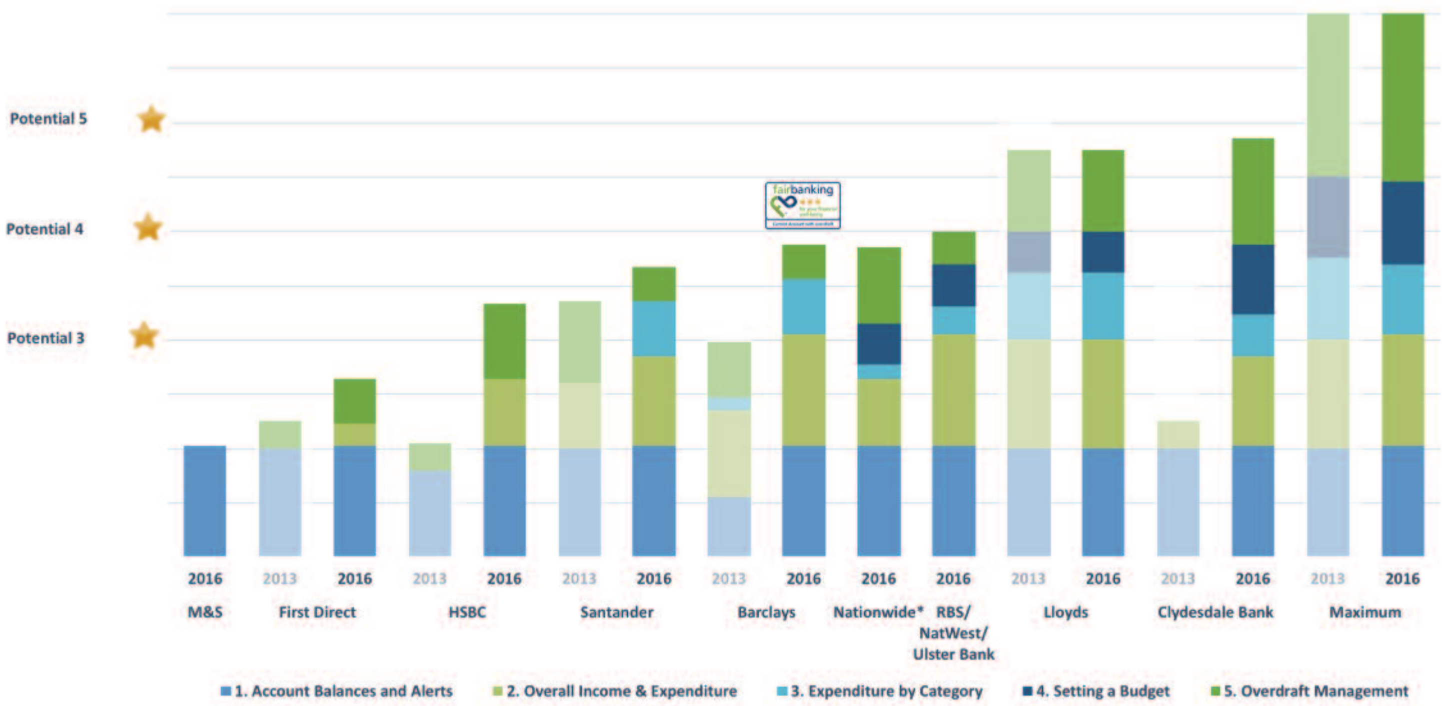
Regulatory Background

The CMA published its final report in August 2016 (Retail Banking Market Investigation) and suffered a barrage of criticism for the weakness of its recommendations. These were primarily aimed at the charges for unauthorised overdrafts, which have long been a problem for the granting of a Fairbanking Certification for this product. In 2013, we wrote *"the large size and unpredictable nature of these charges means that they are at odds with enabling customers to have a sense of control"*. The suggestion was made that significant changes were required. Although Barclays Bank brought in much lower charges for borrowing beyond authorised overdrafts in 2014, the very high charges for unauthorised borrowing in general have persisted. Many charges are not constructed in a way that helps customers to alter behaviour to reduce them and ultimately, charging such high amounts to customers in difficulty will simply make their position worse.

It seems very unlikely that the charges will be reduced without a much stronger intervention from the regulator, such as a cap. This has proved very successful at removing the worst excesses from the payday loan market and is likely to need to be considered in this context. A possible scenario is that this would result in a general rise in authorised overdraft charges, but for some providers these may be too low at present. It is good that charges are at a level that provides sufficient incentive to reduce overdrafts and customers only use them for temporary needs.

A Monthly Maximum Charge (MMC) is a supposed remedy. Even when implemented we would not consider this within the specification for certification. It is naive to consider that such an approach, however salient the information, would have a significant effect on the detriment for

Figure 7: Current Account with overdraft – all rated products



*Non-responders to the survey, public information used.

customers. In general, customers that are not incurring high unauthorised overdraft charges presume they never will and those that are paying them will find it difficult to move provider. A "nudge" is too weak a remedy in this context; the industry needs stronger medicine.

Hopefully the FCA, following pressure from the Financial Services Consumer Panel and the Treasury Committee will respond during 2017. If they do so, we may be in a position to certify more current accounts for having the features we seek that would benefit customers.

1. Account balance and messages

The questionnaire was changed in the light of developments in the last 3 years. Questions were removed relating to the ease of accessing a balance. The level of access to this information digitally has improved greatly and we added a question seeking to identify the ease of visibility of the balance.

All institutions require customers to sign up to receive messages. The main issue remains the extent to which customers are encouraged to sign up to receive these messages both when opening the account and at other times. It would be better to have customers signed up automatically with an option to unsubscribe, but in the absence of this approach, banks could make the sign-up more salient with a one-click sign up being texted to customers. It is difficult to see how this would not be allowed because of marketing preferences especially as this problem has been overcome for other messages.

Nationwide Quickbalance was the first to enable mobile phone users to access their balance without needing to sign into their account; they have this feature available on smartwatch. HSBC has followed with Fast Balance where the balance can be obtained with a swipe on the banking app without any need to log on (see Figure 8). The M&S Balance app requires sign on, but is a simple focus on obtaining a balance in a less complicated way than internet banking. These developments show the importance to customers of providing the balance easily without unnecessary security barriers. Customers need to know what they can afford and

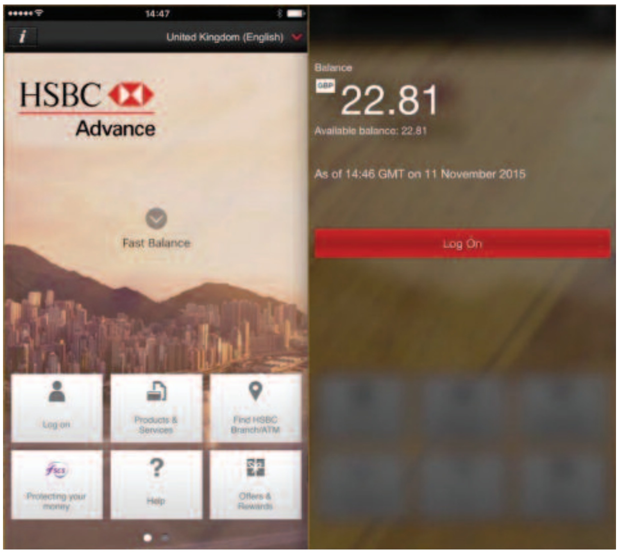


Figure 8: HSBC Fast Balance

technology is increasingly making this easy to achieve.

2. Keeping track of income and expenditure

There are some interesting developments to help customers manage their income and expenditure. Nationwide in its latest app release in July 2016 had a bar diagram showing money in and money out, but others are managing to provide more support.

Clydesdale/Yorkshire Bank has developed the B app, which has very advanced control functionality. There were teething troubles, but these are being fixed. Originally designed for tablet, it is being rolled out for mobile use with the features specifically designed for the smaller screen. Google Play store demonstrates bugs being fixed, so the user experience is likely to keep improving. If it is working well, it will have the potential to achieve a 5 Star Mark. A core feature is the tagging of expenses to help customers know how they are spending money. It appears to be easy to use (see Figure 9). It has 20 pre-set categories and 5 that can be set up by the user. If it notices that you are spending more on a category, it might suggest that the customer sets up a budget to keep track of how much they are spending. In addition, there is a "projection" alert which uses committed spend (e.g. direct debits) and essential spend (e.g. food) to

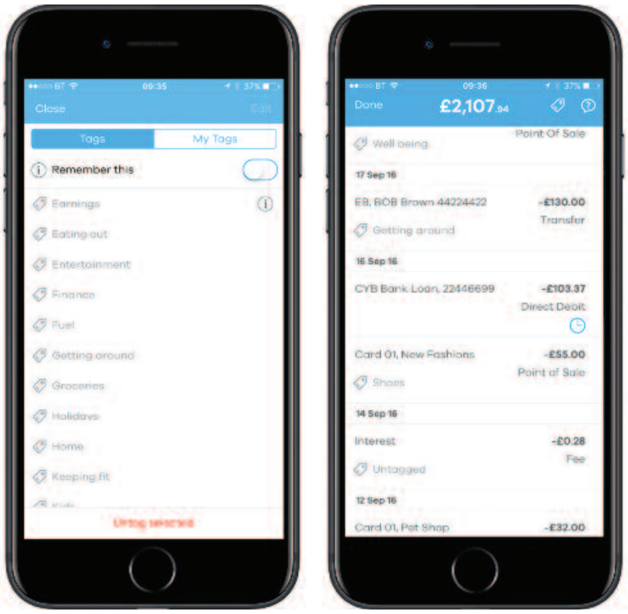


Figure 9: Clydesdale Bank B app

identify whether a customer will have less than £100 (or a customer set amount) in their account. It alerts them accordingly, which will enable advance action by customers to avoid overdrafts.

3. Setting a budget

The B app from Clydesdale Bank uses the information on categorisation of expenditure to

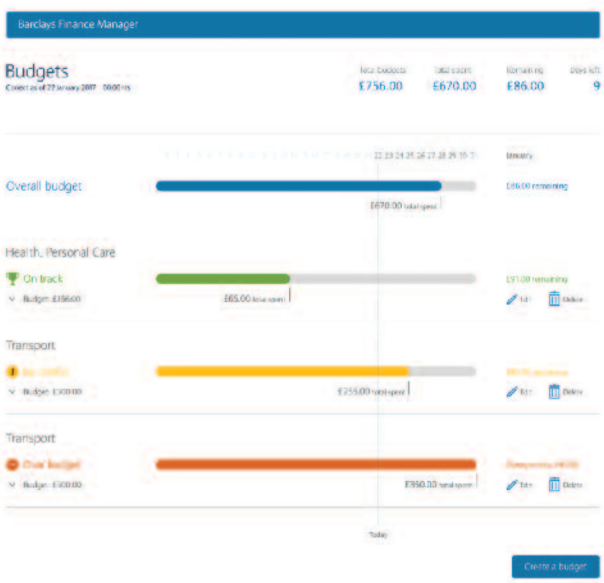


Figure 10: Barclays Bank Account Budget

note that expenditure is increasing and suggest to the customer that they may want to set a budget. It even sets a "default" budget for the customer based on expenditure in the previous month. It is easy for the customer to monitor the budget on that item when the budget has been set.

The Barclays Bank account tracks income and outgoings and customers are shown a snapshot of their budget broken down into categories and whether they remain on budget or are overspending.

The other tools in this category are basic online calculators where the customer inputs all the information and there is no tracking of the actual spend. Both NatWest and Nationwide have enhanced the presentation of these tools, but the extent to which this has encouraged greater use is unknown.

The "nudge" tool from HSBC has had high profile announcement (see Figure 11). It is going to use anonymised data from HSBC customers to provide information to customers designed to alter their behaviour. It could be a really helpful innovation provided that customer outcomes can be monitored.

4. Overdraft management

The features are seeking to help customers identify that they are moving towards an overdraft situation based on current spending, to take action and send alerts if the situation is urgent. Helping the customer identify that they are moving towards an overdraft earlier or helping them plan a way out of an overdraft are objectives of these features.

The CMA report focused on alerting customers that were about to incur unauthorised charges. Two interconnected remedies resulting from the CMA report must be implemented by Q1 2018:

- requiring banks to automatically enrol all their customers into an unarranged overdraft alert;
- requiring banks to offer, and alert customers to the opportunity to benefit from, grace periods during which they can take action to avoid or

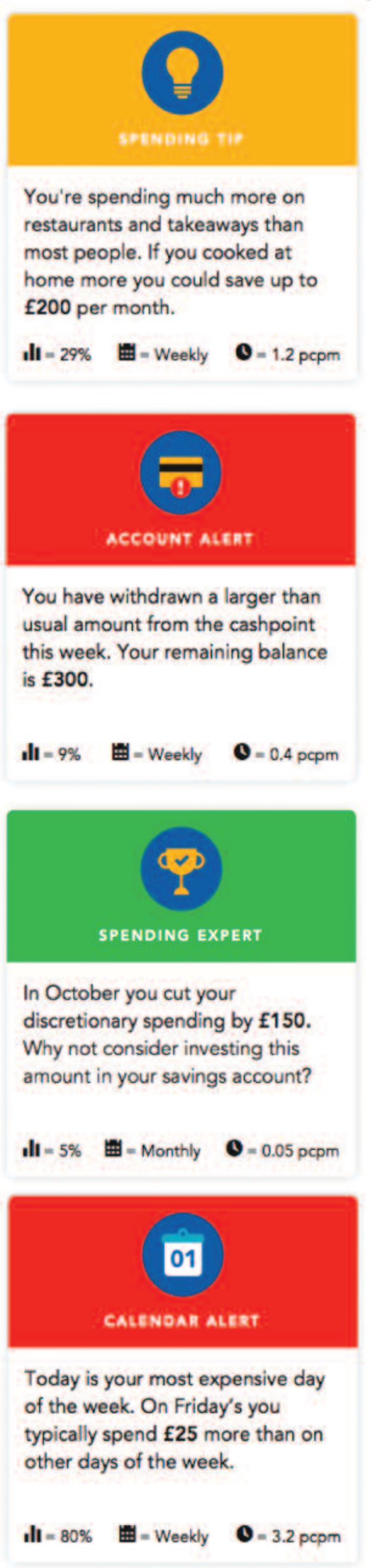


Figure 11 HSBC Nudge Tool

reduce all charges resulting from unarranged overdraft use.

All the major current account providers offer this kind of alert, but HSBC appears to be the only bank to automatically enrol customers to receive this message. HSBC says 52% of HSBC customers and 74% of First Direct customers pay in funds to ensure the balance does not go into unauthorised territory and incur a charge. The level of activity these messages achieve is confirmed on the Barclays Bank Account as follows:

Barclays – Customer response to messages	*I paid money into my current account*	*Helpful*
Weekly balance	37%	91%
Nearing authorised overdraft limit*	54%	94%
Low balance	51%	90%
Unpaid transaction*	68%	96%

** Barclays do not have an unauthorised overdraft, but provides an Emergency Borrowing facility. Transactions will be unpaid if a customer has used the Emergency Borrowing facility or does not have one.*

HSBC has disclosed that in the period November 2014 to July 2016 it has spent more than £100m to save its customers from these charges by sending out automatic messages. The response from customers is unequivocal with more than 90% finding such messages helpful at Barclays and there will be a direct well-being effect from the added control it provides as well as saving them money. A salient message is known to alter behaviour and when used in this context the impact is enormous. The effectiveness of these messages is proven and hopefully the FCA will not feel the need to do too much lengthy testing before making more messages automatic. The Foundation will continue to test the effective use of messages in its certification activity.

At present it is rare to see a good intervention designed to prompt earlier action from customers or to do any planning if in an overdraft situation. This is an area of digital opportunity and it has been shown to be possible by the work done by Capital One in relation to credit cards.

5. Fairbanking Factors

In 2013, we commented on the difficulty of granting a certification to packaged accounts due to the challenge of identifying whether customers were benefiting from all the elements. Following regulatory investigation, the number of these accounts has fallen. In addition, the spate of operational failures due to IT issues, which caused huge levels of current account complaints, seems to have reduced.

Charging a mixture of fees and interest rates, as is done by a number of financial institutions, makes the overall cost impenetrable for the vast majority of customers.

We will close this section as we opened by alluding to the problem of unauthorised overdraft fees and the clarity of charges. When Rt Hon. Andrew Tyrie MP, Chairman of the Treasury Committee, wrote to 13 banks in July 2016 on this subject the letters showed that seven respondents had major accounts where the potential monthly charge ranged from £75 to £100. Some of these charges are difficult to understand and are not even the maximum that may be incurred. It is a high probability that for some customers in difficulty a monthly charge at this level will in itself contribute significantly to their detriment. If we found that the charges were poorly understood and were causing financial difficulty we would not be able to grant a Mark to such an account.

The Barclays Bank Account does not offer an unauthorised overdraft, but makes available an Emergency Borrowing facility with a maximum monthly charge for usage of £35 based on a £5 per day charge with a cap. In granting the Fairbanking Mark, we found that customers would prefer a facility rather than having unpaid transactions and that the fee was understood. There may be other ways of charging transparently, but charging a mixture of fees and interest rates, as is done by a number of financial institutions, makes the overall cost impenetrable for the vast majority of customers. This is not good as it is not clear to customers how to reduce the charges, so they are less likely to take the necessary action. It is of great significance that the increased transparency of the new charging mechanism instituted by Barclays led to a segment of overdraft users taking action to reduce their usage.

4. Current Account Without Overdraft

Current accounts without an overdraft facility are suitable for customers that need closer management of their money, with less personal risk. That is, they cannot afford or do not want to go overdrawn, nor develop a dependency on such a facility. While banks do offer versions of their current accounts without an overdraft facility, they are not generally designed to offer the budgeting facilities needed by this customer group. There are nine banking groups offering a free basic bank account; there are no charges for returned items or for an overdrawn balance. An overdraft should only be possible under rare circumstances such as using a debit card on a plane.

We have seen a number of new 'digital' entrants into the market since the last report, notably the U Account and The Change Account. Loot, Monzo and Tandem Bank have offerings that are in an advanced state of development.

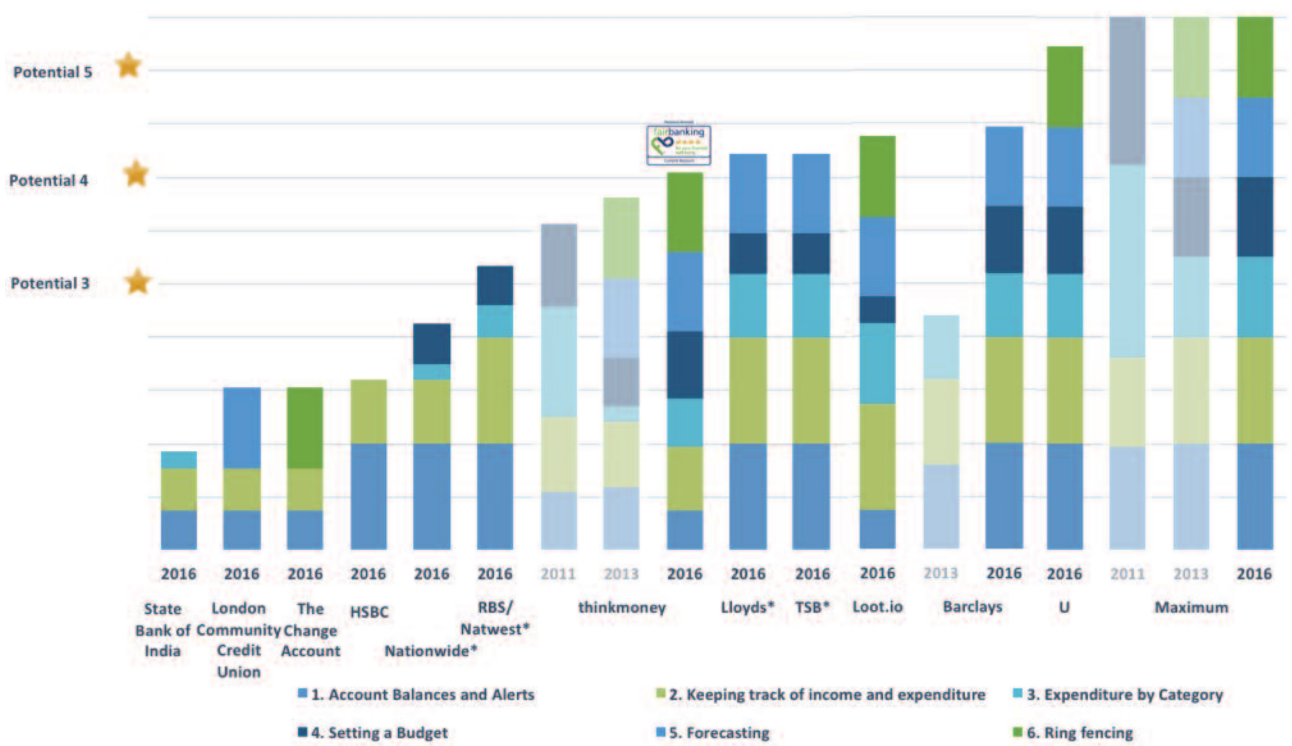
The U Account from Ffrees, at 94% scores highly in all categories, with the potential for a 5 Star Mark. Barclays also scored well at 78%, though it did not score for category 6 – enabling the customer to ring-fence budgets as it did not offer such a feature.

1. Keeping the customer informed and in control

Mainstream banks have done well in this section, scoring full points, as has the U Account. Both Barclays and the U Account note that they are looking to improve in the service they offer:

- Barclays are looking to deliver improved

Figure 12 Current Account Without Overdraft – all rated products



*Non-responders to the survey, public information used.

Figure 13 U Account detailed expenditure

notifications to enable customers to stay on top of their finances better (covering alerts for account management, payments and fraud, as well as advice aimed at helping them save).

- U want to add notifications to 'nudge' behaviours that benefit the customer, such as savings goals reminders or that they are spending more than most on their utility bill.

Indeed, given that notifications are a relatively simple change to make to a banking app, it is likely that we shall see more advances in this area as providers learn which 'standard' alerts are most helpful to customers.

2. Enabling the customer to keep track of income and expenditure

Keeping track of money, the central plank of better financial discipline, becomes even more important if the customer does not have the benefit of an overdraft to fall back on. In addition to Fairbanking features such as reporting cashflow over time, providers are considering how to make information as clear as possible – for example the U Account colour codes income and expenditure transactions. An additional Fairbanking criterion is whether customers are prompted to save, to encourage good habits. Both U and Loot offer facilities for this, the former with their 'Overdraft Buffer' tool and the latter enabling money to be transferred into a locked account automatically (the money is still accessible, just not available for card purchases).

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

Barclays, Loot and U offer a categorisation feature, reporting information numerically and as pie charts/bar graphs. Other providers in the study tended to score rather poorly on this feature. U is

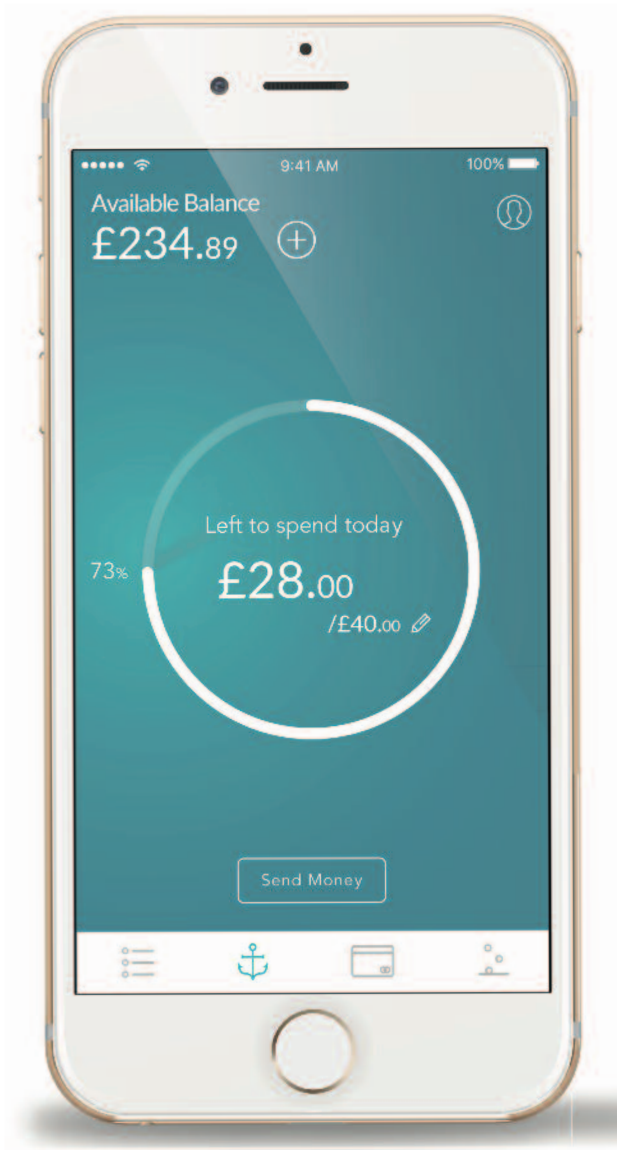


Figure 14 Loot Budgeting app

looking to extend this facility to offer trend analysis, as they state:

For example, an account holder who is '24, renting, and working full-time', would be compared to all other persons who fit this profile and the British average.

4. Enabling the customer to set a budget

Budget setting is another area of primary importance to the no-overdraft target group. Barclays, thinkmoney and U Account scored well in this area. Barclays have stated:

"Customers can set an overall budget and individual budgets across each of the different spend categories. Customers can see clearly all of their budgets via the main navigation and visual representation of their performance against the budgets."

Loot focuses customers on a daily budget amount giving highest profile to the amount available to spend that day. It divides the weekly spend into daily amounts and as data is collected it will be suggesting a spend pattern that takes into account that most people spend more over a weekend.

The U Account can create an extra account for the additional budgeting the customer needs including bills, birthdays and rainy day savings.

While other companies are looking to offer better spending guidance and balance prediction, they did not state that they would be providing budget setting functions.

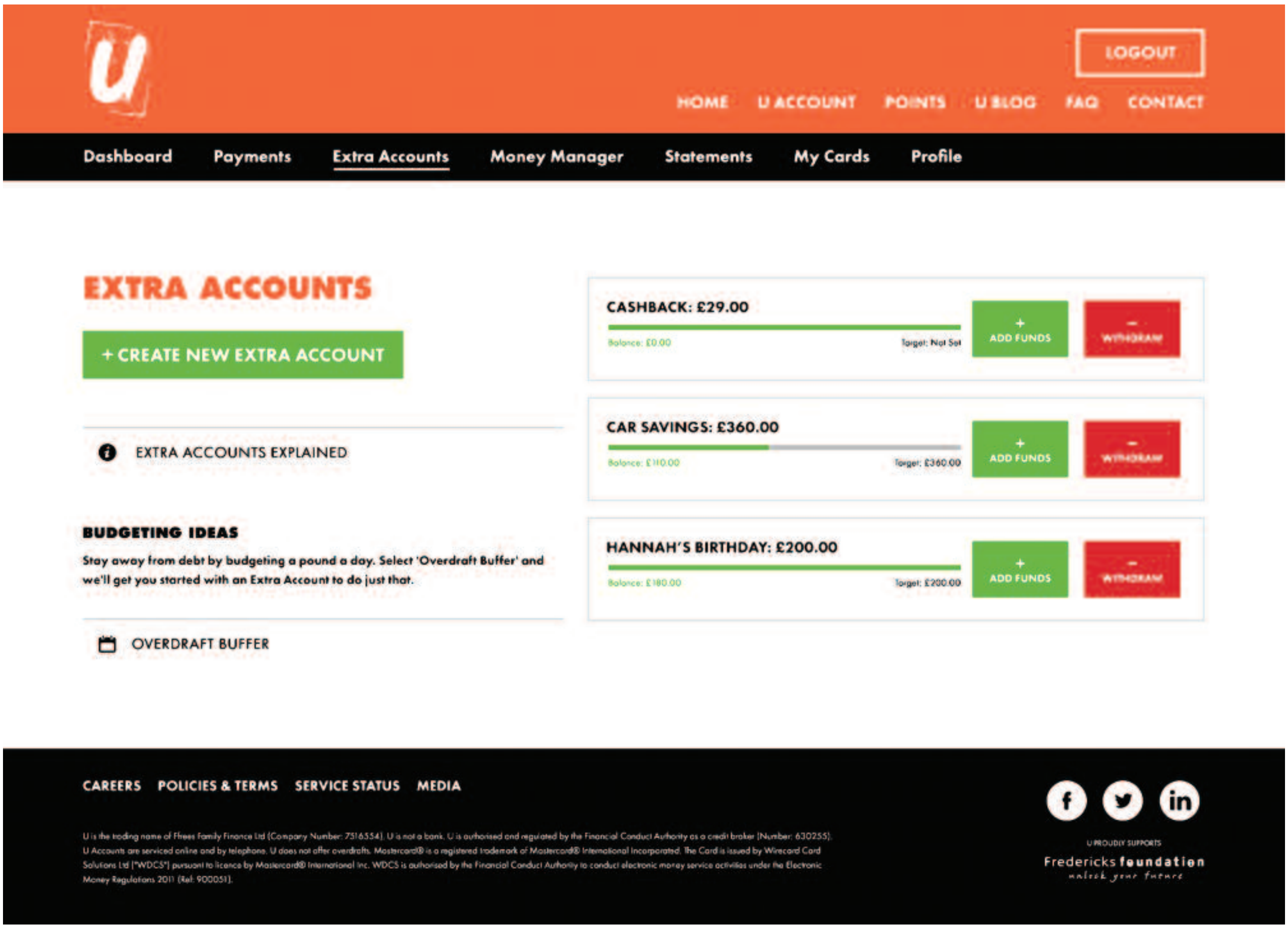


Figure 15 U Account budget setting

5. Enabling the customer to identify shortfalls

This feature is a financial predictor to identify whether or not a customer will keep a positive balance. Barclays, Loot, thinkmoney and U all offer such a facility. Explains U:

"The Money Manager will alert overspending, this is set on defined budget and savings goal as well as based on monitoring income and actual expenditure (e.g. day-to-day purchases) versus planned bills (e.g. scheduled water bill). It will provide a budget forecast, for example, if the customer saves £25 per month it will project how much the customer will have by month 10, it will also project that an overspend of discretionary money (funds not essential to meet savings goals or bill payments) or higher than a normal bill, will result in lack of funds to meet savings goals or bill payments."

6. Enabling the customer to ring-fence budgets

This feature for non-overdraft customers is the ability to lock down certain areas of spending, for example discretionary payments vs. bills to ensure the bills can always get paid. No high street banks offer this facility but The Change Account (with wallets), U (Money Manager), Loot and thinkmoney do.

The Change Account wallets offer a time-lock feature so that customers have to think before they take money and spend it (potentially less wisely) elsewhere.

In addition, the London Community Credit Union enables customers to move money to a 'jam jar' account for a named purpose.

7. Fairness Factors

The Financial Services Compensation Scheme (FSCS) covers deposits up to £85,000 (as at February 2017) held at banks, building societies or credit unions. However, many of the innovative institutions are not banks and are not covered by FSCS. Security of the deposit is an issue for the customers and these new institutions go to some effort to describe the protection on offer, but this is variable. For some of the arrangements in the event of a default by the provider of the banking service, there could be a period when the customer is not clear whether their money is safe. The following are examples of the arrangements in place, given that customers could have money on which they are entirely reliant in these accounts, it is important to consider the relative safety of these funds. The following are examples of the arrangements in place:

U Account: *"Your money is at risk only in the unlikely event that Barclays become insolvent."*

Loot: card provided by Wirecard Card Solutions Ltd *"in the event that WCLS becomes insolvent your funds may become valueless and unusable and as a result you may lose your money"*.

Monzo: in beta test awaiting its banking licence. At present, like Loot, the card is offered by WCLS and provides the following wording in addition to the above; *"as a responsible e-money Issuer, WDCS ensures that once it has received your funds they are deposited in a secure account, specifically for the purpose of redeeming transactions made by your card. In the event that WDCS becomes insolvent funds that you have loaded which have arrived with and been deposited by WDCS are protected against the claims made by creditors"*.

Squirrel: "underwritten by a Barclays bank account" – service provided by Prepaid Financial Services Ltd (no limit on customer balance).

The Change Account: *"once we have received your money it is deposited in a secure account with a prime-rated bank based in London"* (maximum customer balance £7,500).

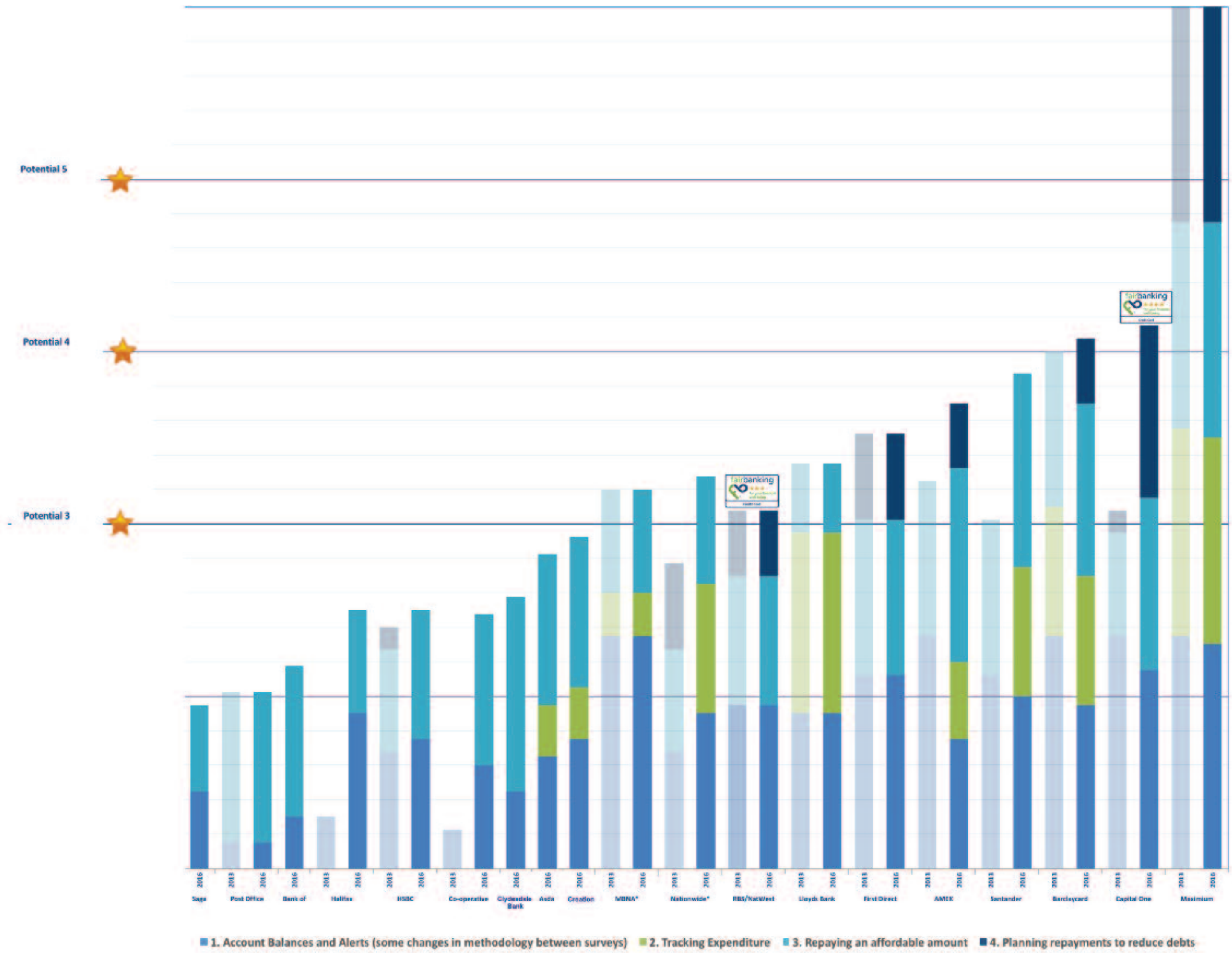
5. Credit Cards

Regulatory background

Encouraging customers to repay more than the minimum has always been a key component of our Credit Card specification. It is important for customers to be able to pay down debts and avoid incurring charges. Since our last report, some institutions have been addressing the issue of customers only paying the minimum, using methods that change customer behaviour. The Which? Credit Cards Briefing also highlighted this important issue and concluded that the inclusion of minimum payment figures on bills could be encouraging people to repay less than they otherwise would and therefore incur higher costs.

The FCA published its final findings from its credit card market study in July 2016. It reported that two million customers were in arrears or had defaulted. On top of this, two million customers had persistent levels of debt and a further 1.6 million were making only minimum repayments and incurring high interest costs as a result. The FCA proposed a package of remedies to reduce the number of customers in potentially problematic debt and to put more consumers in control of their borrowing.

Figure 16 Credit Cards – all rated products



*Non-responders to the survey, public information used.

The industry is voluntarily going to allow customers to request a later card payment date to coincide with salary payment and automatically alert them when a threshold is reached between 80% and 95% of their available credit limit. One survey respondent advised that they already provided these services, but admitted they could advertise them better. This was a point that was emphasised in the 2013 report; institutions had features available but they were poorly presented and take up would inevitably be low. More effort is needed to engage customers in features that are helpful; too much is expected of customers to self-select these options.

Many of the remedies align with Fairbanking's existing specifications. The UK Cards Association expects the FCA to undertake behavioral trials relating to minimum repayers in 2017 to be reported in the summer. The issues of unsolicited credit limit increases, early intervention and persistent debt were all raised without any solutions forthcoming. It will be some time before new remedies are agreed by the FCA and in the meantime the Fairbanking certification will contain these features to encourage the industry along the path.

The FCA report has been subject to criticism from several Industry bodies. The Financial Services Consumer Panel has called the response wholly inadequate and considers the response in sharp contrast to the tough stance taken on high cost short-term lenders. The Centre for Responsible Credit (CfRC) states that *"calls for more radical measures have been ignored, but will eventually need to be used"*.

While the regulatory approach grinds slowly on, we are encouraged by the changes that are described below, which have occurred since our last report.

1. Keeping the customer informed and in control through messages and alerts.

Many financial institutions have been scored lower in this section as the questionnaire was changed to reflect improvements in access to balance information in the last 3 years. Mobile services and apps have gone from being a value added service to something expected by many customers. Clear information about an account and its status provides a significant tool to help customers manage their money. As well as balance enquires, there are automated reminders about monthly payments or alerts if a credit limit is being approached. It is recognised that it would be better if these were sent automatically rather than requiring sign up or activated soon after application. Institutions in past reports would have scored full points if alerts were issued but we are moving the goal posts by expecting institutions to automatically enrol customers for messaging. Having balance and transaction information available via alerts and on apps has meant that customers are not using mini statements as often and those questions have been removed.

Capital One sets up messaging and alerts to customers automatically on account opening. All other institutions encourage their customers to varying degrees to set up messaging but leave it to the customers to enrol themselves. This means that the more tech savvy customers will be more likely to do this. We would like to see more institutions adopt an auto-enrolment system for alerts and messages, with the customer able to opt out.

Credit limit increases is a context in which customers should opt into the choice. Currently credit limits are generally increased upwards, and with an opt-out rather than an opt-in. Customers have to take action to stop the increase happening in response to a letter they receive. A customer could be encouraged to consider if the increase is advisable in their current situation, although discovering a good approach to doing this would require research. Many customers would not take up the increase due to inertia, which may be in their interests.

Santander currently has a pilot underway that is testing credit limit increase opt-ins.

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

Institutions with mobile banking apps have put a lot of development in this area for current accounts but there has not been as much change in credit cards.

On average this section scored the second lowest out of all the sections. Six out of the eighteen respondents show expenditure by pre-set categories and track through time, e.g dining out versus groceries. Such categories help budgeting and should be tracked and clearly presented so a customer would know what is being spent and whether the pattern was changing. There are no examples of being able to set a category budget.

Barclaycard have increased functionality to allow customers to see different views of their spending. Santander allows customers to review their spending in categories and allows the customer to see different views via online banking and an app. Asda Money, Amex and Creation all show customers pie charts and other visuals of spending patterns within online banking

3. Enabling the customer to repay as much as they can afford

The features are helping the customers to easily repay their balance and to repay more than the minimum repayment at an affordable level. Many Institutions default to requesting the minimum payment each month, without encouraging a larger payment from the customer. Often customers set up a direct debit to only pay the minimum repayment charge. We want the customer to be able to pay part or all of the balance easily and to be encouraged to pay more than the minimum if they have been identified as displaying this behaviour.

Capital One customers that have paid the minimum, or close to it, for 6 months, will also be prompted with a message to show them how much quicker the balance would be paid down and how much interest they would save. Figure 17 shows that doubling the payment reduces the interest paid by 82% in this example; a significant incentive. This communication had been tested during 2015 and had been expanded further in 2016. This is a major improvement on the last report in 2013, where we noted that institutions did not seem to be innovative in trying to help customers optimise their repayment.

Co-op has also made progress in this area and is sending customers messages when they are only repaying the minimum. Post Office Money is currently working on a suite of new messaging including one for persistent minimum payers

Figure 17 Capital One – Encouragement to pay more than the minimum

A new question was introduced in the survey to identify whether institutions were encouraging customers to set up the repayment date to be as close to their income receipt date as possible. This is a practice we encourage and have seen within loans

Figure 18 – RBS/NatWest online calculator

products; to date we have not seen institutions introduce this for credit cards. Lloyds Group is planning to enable online payments using a debit card and to offer customers a change of payment date to coincide with receipt of salary.

4. Enabling customers to plan repayments to reduce debts

The features are helping customers to take control of their debts and take a realistic action to reduce them. Tools to help plan repayments are likely to encourage good behaviour, as they require thought about how to manage personal finances. A tool on the website or in an app, showing how long it takes to repay a balance, can be revelatory. It is a shock leading to action to find that paying the minimum can mean you will take 20 years to pay for your last lunch or holiday!

Royal Bank of Scotland / NatWest has an online calculator which presents the timescales associated with minimum payments, encouraging a greater payment to be made (see Figure 18). In the example shown, a relatively small balance of £1,500 would take 19 years to clear at a minimum payment rate of £28 per month. The calculator also enables customers to determine how to clear the balance faster, including positive messages such as *"Well done... You have reduced your time by 14 years and 3 months."*

Although a credit card balance is a debt, this is not generally how it is presented by credit card providers, nor necessarily considered in the mind of the customer. We view it as important to show a customer that has built up a balance how to reduce it by creating a repayment plan. In the last report, we noted little progress in this area, although we did note how institutions refer their customers in financial difficulty to external agencies. It is difficult to tell whether a particular institution is doing this better for customers than another in terms of reducing worry and ultimately the debt burden. Using early indications of financial difficulty to encourage customers to take action can be successful.

Capital One (4 Star Fairbanking Mark holder) sends emails to customers who are experiencing payment difficulties that are designed to help them restart paying again easily by selecting and clicking a payment option within the email at a level that they can afford (see Figure 19). *"This is not something any other lender has done for me in the past and was great to help me get back on track,"* commented a customer.

Barclays has also made progress in this area, notably around its repayment plan service for customers who cannot make minimum payments. Barclays has created a "money worries hub", based on face-to-face research with customers, which shows real life examples including a customer that has lost their job and has missed payments; a customer that has taken a pay cut at work and has to re-budget; and a customer that has recently lost their partner and is struggling to make payments. The real life examples help to illustrate what other customers need to do, demonstrating the actions are normal for customers in these circumstances.

Fairness Factors

In 2013, we also reported on why we did not grant Fairbanking Marks to products with teaser rates. Since then we have been able to grant Marks to four credit cards that have innovative features that enhance well-being but also do not have teaser

Figure 19 Capital One payment plan message

rates. This is a clear indication that large organisations also understand the impact on customers when they do not move at the end of an introductory offer.

In 2015, Fairbanking conducted research which involved interviewing people about teaser rates, balance transfers and customer well-being. The results were picked up by several news outlets highlighting that 29% of people taking out 0% credit cards for spending or balance transfers in the past five years ended up with more debt.

When looking at the reasons why they ended up with more debt, we found:

- 28% said it was because their new credit cards had a long interest free period which they felt 'encouraged' them to do this;
- 26% said their credit card offered them access to new interest free credit which they used; and
- 22% said the long period of not having to pay any interest meant they were not focused on repaying their debt.

We understand that used sensibly, zero per cent deals can be useful for some customers but it is clear they are also encouraging significant numbers to take on more debt and can be detrimental to helping people manage their finances. The Which? briefing on credit cards published in 2016 stated that on the whole, '0% balance transfer deals' are not free of charges, despite what the '0%' might imply. Banks and other finance companies have a duty of care to ensure that people are not taking on too much debt. In our view, it would be better to offer credit cards with consistently attractive rates which do not encourage people to spend beyond their means as debt can creep up on people. RBS/NatWest have adopted a policy of no bonus rates across all products and that includes no teaser rates on credit cards. Both institutions now hold Fairbanking Marks for their products. In order to grant the Fairbanking Mark to a card with an interest free period it would be necessary to show it was not causing detriment.

6. Personal Loans

Regulatory Background

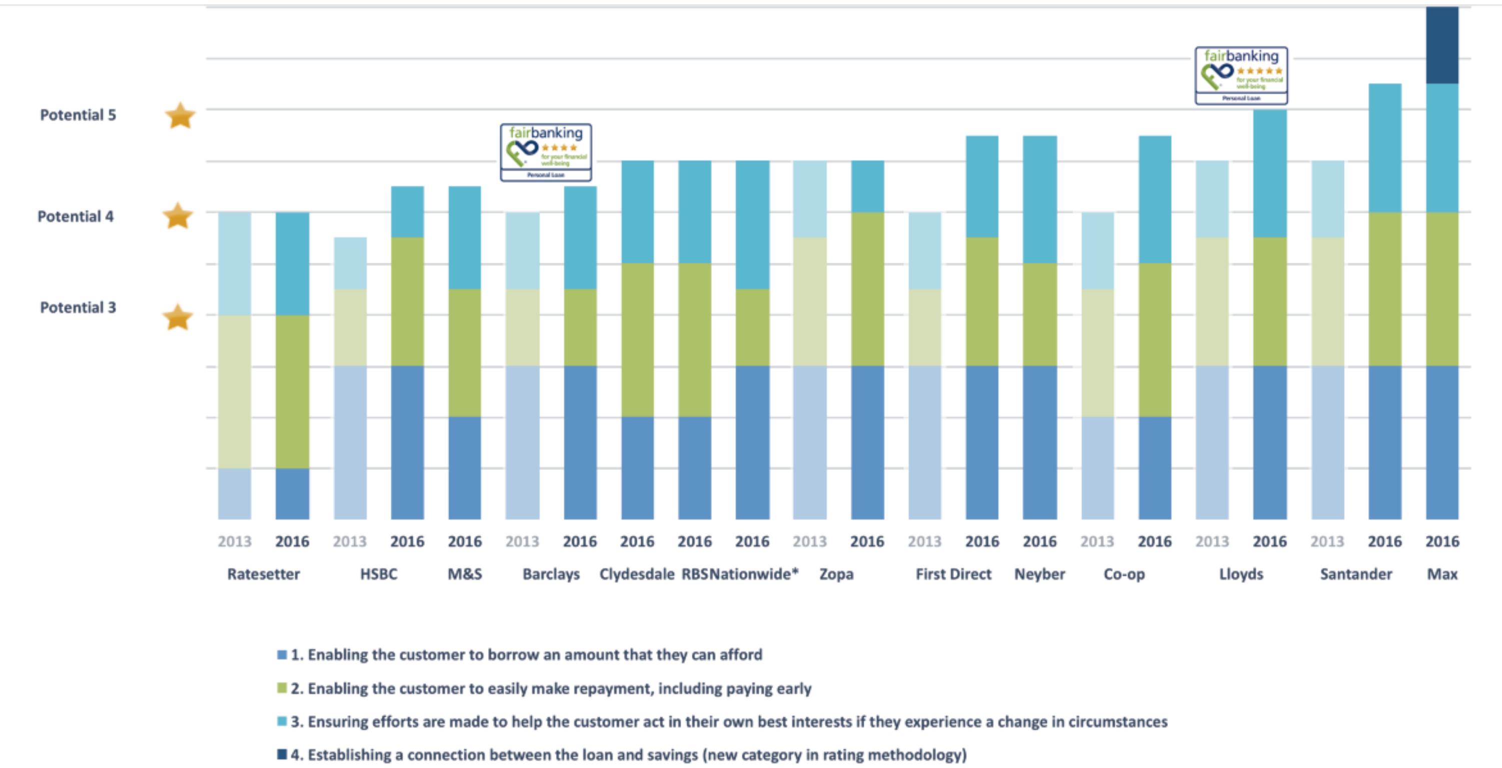
There have been significant changes to self-regulation in the last year and we begin by considering the implications for the Fairbanking Mark. Following an independent review of the Lending Code, changes to the code of practice of personal loan providers was published in July 2016; it came into effect on 1 October 2016. Under the new Standards of Lending Practice, financial institutions will have to focus on achieving good outcomes for their customers at every stage of the loan process from marketing of the product, through the application process, servicing the account and closure or maturity of the product. The new Standards, as with the earlier Lending Code, will be overseen by the independent Lending Standards Board, and are sponsored by two industry trade bodies, the British Bankers Association (BBA) and The UK Cards Association.

Within the new Standards are seven main areas: financial promotions and communications, product sale, account maintenance and servicing, money management, financial difficulty, customer vulnerability, and governance and oversight. In line with the Fairbanking Mark specification for Personal Loans there is now greater emphasis on money management and customers that are in financial difficulty. The new Standards are untested and may not go far enough in ensuring that customers do not take on too much debt.

At this stage it is not clear what evidence will be used to demonstrate that customers are fully aware of the amount of debt they will be taking on and how to act if they are in difficulty. The new standards have not included a provision for customers saving at the same time as paying back the loan or encouragement to save when a loan is completed which we have evidence of being beneficial for customers. Our conclusion is that while welcome, the need for the Fairbanking Mark to act as evidence of effective practice on behalf of customers is undiminished at present.

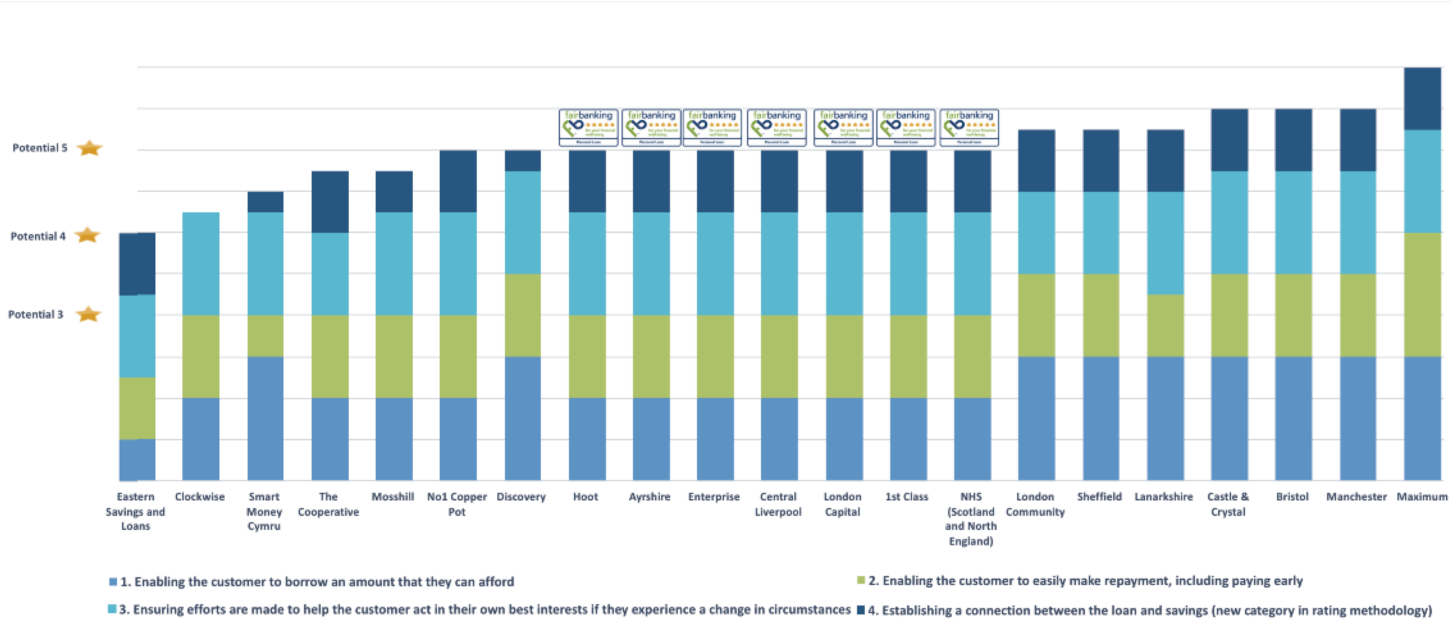
Since the previous report we have assessed and granted nine Fairbanking Marks for Personal Loans.

Figure 20 Personal Loans – all rated products



*Non-responders to the survey, public information used.

Figure 21 Personal Loans – all rated Credit Union products



Eight of these have been granted a 5 Star Mark, which is very encouraging and we have engagement from large banks to credit unions. All financial institutions are tested against the same criteria and although customers get a very 'hands on' experience with a credit union compared to a large bank we are satisfied through our testing that the customers of Mark holding products are generally being encouraged to act in their interests.

1. Enabling the customer to borrow an amount they can afford

The features are enabling customers to consider the appropriateness of the loan and whether they can afford the repayments. Customers that use a loan calculator either online or with a member of staff find it very helpful to be shown the different repayment amounts for different time periods. The Lloyds/Bank of Scotland Flexible Loan is a good example of a slider tool so customers can change the repayment time period to show the difference it would make to the monthly repayment amount (See Figure 22).

Customers have stated that the tool was helpful during the loan application process.

Ensuring customers can afford the loan and take into consideration all other outgoings and borrowing is a key component of our specification. It is becoming much more usual for customers to have been encouraged to use a budgeting tool and consider whether they can afford the loan for themselves rather than rely on the lender. In the case of credit unions, customers respond well to being given the opportunity to retain their budget planner when completed in a branch. For example, 1st Alliance Credit Union customers use their budget

Figure 22 Lloyds online calculator

after the loan is approved to keep track of incomings and outgoings to ensure that they can continue to afford the repayments.

2. Enabling the customer to easily make repayments, including paying early

It is important to make it as easy as possible for the customer to make a repayment on the loan. For some customers, repaying early will reduce worry and reduce vulnerability to a change in circumstance. For example, 5 Star Mark holder, Enterprise Credit Union does encourage customers that have additional funds (if appropriate) to make additional payments. This is often in a face-to-face branch or telephony environment and there is no charge for early settlement. NHS Credit Union and 1st Class Credit Union which are both 5 Star Mark holders have payroll deduction schemes and set the repayment date of the loan to be the same as the date the customer receives income which is very beneficial. Santander encourages its customers to choose as close to the date income is received.

3. Ensuring efforts are made to help the customer act in their best interests if the customer has experienced a change in circumstances

The features are ensuring that the customer takes action at the earliest time if they face difficulty. It considers how the customer is treated given that their circumstances may have changed and the way in which the customer is supported. Enterprise Credit Union has demonstrated that they are proactive if they detect a potential repayment issue and have the capability to send a text message or call the customer the day a payment is missed. This speed to the customer is vitally important to ensure the customer can either make the payment straight away or be put onto a new plan option if they cannot continue to make the scheduled payment.

Prior to missing a payment it is important for customers to know what to do if they experience a change in circumstances. For large banks their website is often the first thing a customer will check for information and having clear information with access to Webchat is important. Customers that have a Barclayloan stated they felt reassured that they would know what to do prior to missing a payment.

4. Establishing a connection between the loan and savings as an alternative

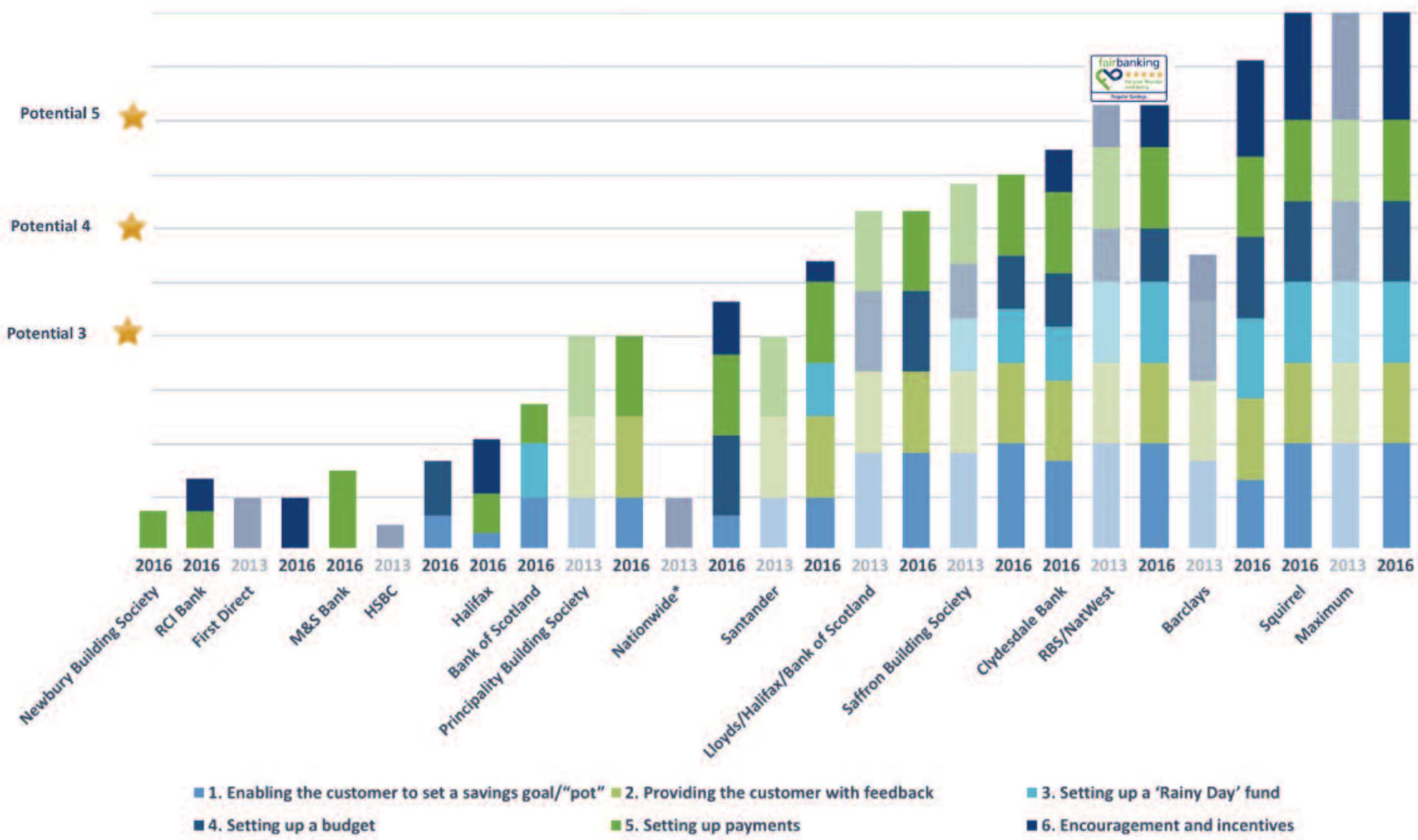
The features are providing a connection between using income for savings and using it to repay a loan. A savings habit may be developed as a result of these features. It is credit unions rather than large banks that are seeing the value of encouraging customers to save at the same time as paying back their loan. The seven credit unions with 5 Star Fairbanking Marks all have this feature. For many customers completing a repayment on a loan and generating a sum of saving, represents the first time that the customer has been able to save anything in their lives.

Barclays Barclayloan on maturity does encourage customers to use their additional funds to start saving.

7. Regular Savings

The Money Advice Service has found that 16 million adults in the UK (33% of the population) have no savings at all. They are urging people without contingency savings to begin making small, regular savings to ease the strain and shock of unexpected bills. More broadly, it is recognised that planning to save is a way of reducing reliance on debt and generates well-being through resilience. Since the previous Ratings Report interest rates on Instant Access savings accounts have continued to fall. Base rate cuts following the financial crisis have had a positive effect on mortgage rates but have also led to very low interest rates on instant access savings accounts. But does regular saving still matter? For people who are less likely to save, either because they have less money or have not adopted a saving good practice, the answer remains yes. A low interest rate is one factor, but money saved regularly also equates to money being ring-fenced and contributing towards a rainy day fund. An issue that the Fairbanking Foundation has had historically with a wide range of savings accounts is that many have an introductory bonus. Financial institutions that currently hold Fairbanking Marks on their products do not have introductory bonuses, which we know cause detriment to customers who do not move to another account when the bonus rate ends. A rate of 0.5% might be payable on an account but that may include a bonus of 0.4% that only applies for a short period. If this savings account were attached to a goal that takes a number of years, for example saving for a deposit

Figure 23 Regular Savings – all rated products



*Non-responders to the survey, public information used.

on a house, then it is difficult to see how a bonus rate would be appropriate for the customer.

We know that building a regular savings habit can make a big difference to the customer's financial well-being. In January 2016, the government recognised the issue when it set out its intention to set up a new Help to Save scheme to encourage people on low incomes to build up a rainy day fund. Help to Save will target working families on the lowest incomes, around 3.5 million adults. It will provide a bonus on up to £50 of monthly savings to motivate. It will require careful consideration as to how such a scheme will work, since we know from experience that these purely economic incentives frequently do not encourage the intended behaviour from those they are designed to help.

Purely economic incentives frequently do not encourage the intended behaviour from those they are designed to help.

Our work with the credit unions has shown that encouraging people to save at the same time as repaying debt has created savers by default. We may see such a scheme influencing savings behaviour by the time our next report is produced.

In the 2013 report, we discussed how financial institutions needed to take a longer-term view of how their customers saved, rather than going for short-term goals alone such as increasing saver numbers through first year incentives. Overall, not a great deal has changed in terms of instant access savings product structure. The increase in Cash ISA limits has meant that customers are able to save more tax free and can save towards larger size goals like children's education and weddings without going over the yearly subscription limits. In 2015 we were able to grant a 5 Star Fairbanking Mark to the RBS/NatWest Instant Access Cash ISA product that customers can add a Savings Goal to.

Financial institutions have been gaining experience as to how people save and how to encourage it. Those institutions that enable customers to set goals and track them show a greater level of engagement. RBS/NatWest customers that have a savings goal on an account save £152 more a month then those customers without a goal and this is likely to be even higher when added to the mobile app in the future. These are not primarily issues of design or economics i.e. the best interest rate, but the financial institution having a desire to understand what will galvanise the time poor, financially disinterested customer into taking positive action. Barclays Bank introduced a goal setting savings account in 2016 and within its first month of launch 2,700 customers had set up a goal.

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

RBS/NatWest have two accounts that have 5 Star Fairbanking Marks with the Cash ISA account being granted since the previous report. Customers have the ability to create a goal, name it, set the goal amount and the date of completion. The number of goals that have been completed has increased but the goal type has changed very little since 2013.

Figure 24: RBS/NatWest most popular saving goals

Goal Type	*% of goals*
Holiday	23%
House	20%
Other	19%
Something Special	11%
Rainy Day	8%
Car	8%
Wedding	4%
Education	3%
Baby	2%
Your Business	2%

Clydesdale Bank and Principality Building Society also have good examples of a goal setting account that allows customers to set up multiple savings "pots" within a single savings account. Each savings pot can be named by the customers, with a target amount to save or date to save by set by the customer.

A number of institutions are looking to extend their functionality, from the simple addition of pictures (Clydesdale) to extended 'pot' functionality from RCI Bank and Santander's 'jam jars'. Squirrel allows the customers to have a personalised picture for their goal and the picture has a slow reveal, as it gets closer to the target being met (see Figure 25).

Figure 25 Squirrel savings goal personalisation

2. Providing feedback to the customer on progress towards goals

Institutions generally provide feedback if they have created a savings goal or 'pot' feature, with feedback and messages being available via online banking and email messages. The B Savings account from Clydesdale Bank provides information as a visual pie chart showing progress, with percentage and absolute value indicators of progress towards the target. Barclays provide customers with information on all the goals they have set up and how much has been saved so far and how far the customer has still to go to complete. If the goal is not on track the customer can reset the goal to be over a longer period of time (see Figure 26).

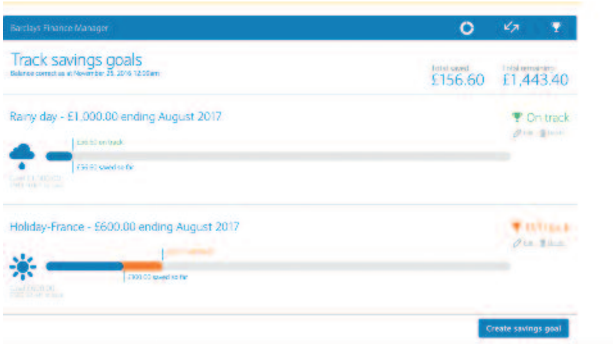


Figure 26 Barclays Savings goal tracker

3. Setting up and maintaining a "rainy day" fund

RBS/NatWest, Clydesdale Bank and Barclays have the option to create a rainy day fund with similar tracking features to savings goals. Barclays and RBS/NatWest will email customers if the balance on a Rainy Day goal has been diminished by at least 50% to remind them to start rebuilding the fund and detailing the benefits of having a rainy day fund in place.

4. Providing the customer with an integrated budget tool

In the last report we noted how RBS/NatWest had developed a market-leading example of a budget tool to help savers. New tools have been developed and are now also offered by Clydesdale Bank, Barclays (see Figure 27) and Nationwide.

While it is not directly linked to the account, Nationwide also links the budgeting tool to savings goals. Also customers are able to make a budget then decide how much he or she would like to save. After the amount is determined they are able to use the savings goal option to calculate how long it would take to reach their savings goal.

5. Offering an easy payment mechanism

Most accounts offer the standing order mechanism to enable regular savings. Some offer additional mechanisms to make saving easier, such as First

Figure 27 Barclays budget calculator

Direct's 'sweep' functionality from the customers current account to the savings goal.

6. Providing motivation and incentives to continue with or re-align a goal

Many organisations, including RBS/NatWest, Clydesdale Bank and Barclays, are starting to offer account feedback via in-app messaging. For example, Clydesdale Bank send customers intelligent hints & tips via in app messaging and financial stories to illustrate the customer activity as observed on their account. It also congratulates customers when an objective has been achieved, and encourages new goal setting.

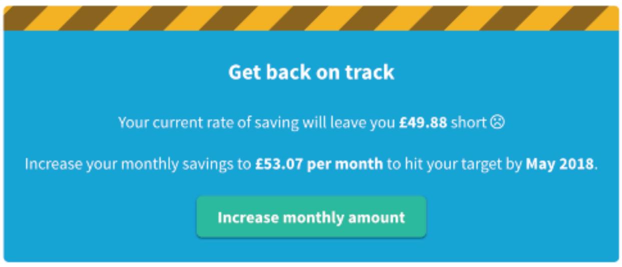


Figure 28 Squirrel savings encouragement message

Squirrel has interactions with customers to keep them motivated. They message customers when they have fallen behind to get back on track (see Figure 28) and they also ask the customer if they are sure they want to take funds out of their goal before actioning the request (see Figure 29).

RBS/NatWest and Barclay's customers receive a congratulations message on goal completion, which prompts them to log into Online Banking to set-up a new goal.

It is worth noting that incentives to save from those surveyed are not monetary; rather, the financial institutions use encouragement messages to encourage savers to continue their good work. For the future, Barclays is considering an incentive scheme based on points; meanwhile HSBC told us of their 'ground breaking' new app called Nudge, which will give customers an overview of their spending patterns and cross-references with other users. Knowing that others are managing to save more should lead to changes in customer behaviour.

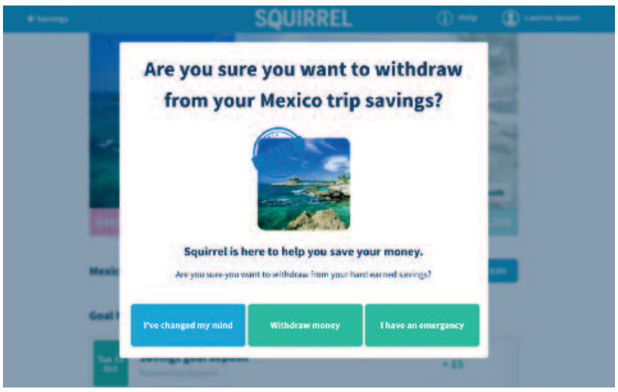


Figure 29 Squirrel savings message

8. Children's Savings

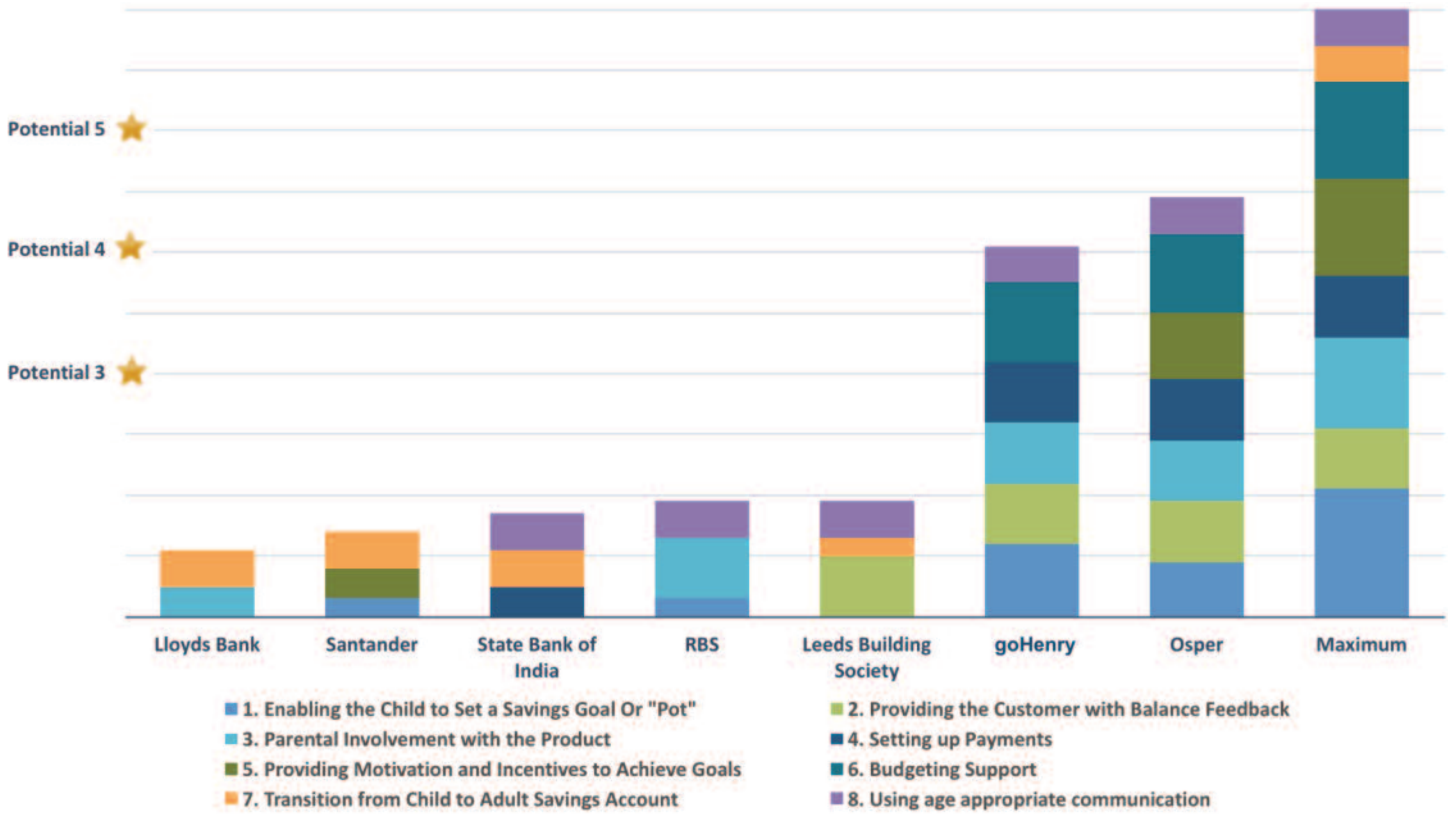
In November 2016, the Money Advice Service published the initial findings of its survey of children and young people. It shows that only 43% of 12-17 year olds felt confident managing their money. The less confident children are much less likely to save e.g. 52% of confident children say they save money most or every time they get some, while only 24% with low confidence say they will. It is important that this situation is improved and financial institutions can play their part.

A new set of criteria has been developed for children's savings accounts and the products were surveyed for the first time to see what was looking helpful. There were seven respondents to the survey. We are grateful to Child and Youth Finance International (CYFI) and the Money Advice Service for contributing to the surveys, all conclusions reached are the responsibility of the Foundation.

Studies show that if a parent opens a savings account for a child or a child has a savings account in their own name, they are more likely to have a savings account in their early to mid-twenties. Indeed, a study shows that the account will have a larger balance if it was opened in the child's name (*The independent effects of savings accounts in children's names on their savings outcomes in young adulthood;* T. Friedline, 2014). Unfortunately, there are no studies which provide trial based evidence on how to develop savings habits in children in developed economies, but there are many pointers to what will be influential. Appendix 1 gives an overview of the research on the topic and it is this that formed the basis for the criteria in the questionnaire that led to the specification (see Appendix 3). Many more questions were asked than are included in the specification, but some topics were excluded due to the financial institutions not having the feature and there being no evidence of effectiveness.

The two digital companies, Osper and goHenry are using many of these approaches in what they offer. They differ from the standard children's saving account in that the savings goals are fully integrated

Figure 30 Children's Savings – all rated products



*Non-responders to the survey, public information used.

with their prepay card offering, which performs in a very similar way to a child's current account; there are charges for the account. Based on their responses, they would have a high Star Rating if a certification is made available for these products. They are offering the savings facility without paying any interest on those savings. The amounts will be relatively small and instant access will be required. In the current very low rate environment, any interest paid on these savings would not be a major incentive, but if rates were higher, the lack of interest could be an issue. There are a lot of features as part of the savings pot being integrated with a prepay card, which justify the monthly charge for the transaction account. The accounts do not benefit from depositor protection, although monies are held in segregated accounts. This is an area that would need to be explored further if a certification was to be granted.

For major banks, the appetite for encouraging children to engage with savings through the accounts seems modest.

Credit unions do not have such sophisticated features for the junior savings accounts, but are able to offer school banks and other education related initiatives that are very well received.

For major banks, the appetite for encouraging children to engage with savings through the accounts seems modest. The main motivation is around a higher rate of interest on the account; many are paying 2% or more when base rate is 0.25%. This will be encouraging parents to ensure that the child's nest egg is left in one of these accounts to grow. It will generate positive customer feedback because of the interest rate, but whether young people are developing savings habits or budgeting skills is unclear. A number are offering a piggy bank or other account opening incentive, which is well received, although the effect may be quite short-term. There are some games that have been developed and parents appreciate that it encourages their kids to save and children like the fun, interactive approach.

It is encouraging to be advised of many examples of plans to developing children's savings accounts, some of which are detailed below. If some of these come to fruition, there could be worthwhile improvements in the next few years.

1. Enabling the child to set a saving goal or "pot"

As with adults, age appropriate goal setting is likely to build a commitment to savings when combined with salient feedback.

goHenry has a particularly smooth approach which a child can access online or using an app. They enter what they want to save for (e.g. headphones, jeans or Holly's birthday gift, see Figure 31). They put a date when they want to reach the goal and the system calculates the amount of weekly saving. The system will auto save this amount into a separate pot, which cannot be used when spending on the card. The child can have multiple goals set on the account.

2. Providing Feedback on progress towards goal

Both Osper and goHenry have a bar that adjusts according to how close the child is from reaching their goal (see Figure 31). The saved amount is not included in the spendable balance, which acts as a deterrent. Even this modest obstacle to spending the money prematurely will be a significant disincentive to withdrawing.

3. Parental involvement with developing money skills

Both Osper and goHenry have a high level of involvement from the parent in the set-up of the account. The parent can load money onto the account and see how the child is spending or saving. The intention is to influence the child's habits in a positive way. The evidence is that the young person is gaining more freedom and control. The automatic transfer of money provides a regular income, which often is not the case when pocket money relies on parents having the cash available and making sure it is paid to the child on time.

Osper has developed specific opportunities for a discussion. The parent will get an e-mail when a goal is deleted, when money is moved from a goal and when a goal is completed. These are used as opportunities for a discussion by parents and are viewed positively.

Among many features, goHenry allows money to be earned by doing tasks around the house paid for by the parent, enabling an early experience of income and expenditure management.

RBS promotes its Pigby's World app to encourage parents to engage with their children on saving via these educational games.

4. Setting up deposits

At both goHenry and Osper, it is part of the goal-setting process to set up an automatic regular deposit. At Osper, even if the young person does not want to set up the regular payment, they are encouraged to make an immediate deposit before the end of the process. This is a good idea as it is encouraging commitment and gives the child the sense that progress is already being made to the goal. This will make it more likely that further saving takes place. The child can save into a goal at any time, which could be triggered by receiving birthday or Christmas money. The ease of doing this will make it more likely to happen.

5. Providing motivation/incentives to meet goals

Some children's savings accounts have high relative rates for the current environment, but these accounts are designed for lump sums and do not specifically incentivise regular savings or reaching a goal. They appear to be more geared to encouraging parents to put aside money for their children, which is a different, albeit worthwhile objective.

Osper provide encouragement when a goal has been met to both the child and parent, which will enable the parent to celebrate this achievement

Figure 31 Examples from goHenry and Osper

with the child. The young person is encouraged to set another goal at that point (see Figure 31). In addition, a message is sent if a child removes money before achieving the goal with the intention of encouraging the child to rebuild their savings and for the parent to offer some support.

6. Budgeting support

The only example identified of providing this via the account is Osper. Some financial institutions are giving budgeting support via a school's programme.

The Osper account provides categorisation of spending, which makes it easy for child and parent to see where money is going. By understanding categories of expenditure a young person is better able to make adjustments in order to save. The app presents a real time report in graphical format using the nine categories (e.g. food and drink or transport), each has a colourful icon. Children can change the tags easily on the app and there is a tutorial. It is known that categorising expenditure is a rather dull activity for adults and children. The app makes a prominent feature on the home page of untagged items and is counter-balancing this lack of motivation.

7. Transition from child to adult account

This new survey asked questions about what happens when a young person moves to an adult savings account. This is an obvious educational opportunity in that we know that people are more likely to develop new habits when linked to another life event. In this case, it could have been linked to a birthday and a requirement to change account. What we found was that there is a lot of variation on the requirement to close a youth savings account and open an adult account. Some are closed automatically and transferred to an adult account, while others require the young person to open the new account. There is little sign that this is treated by the financial institution as an educational opportunity.

8. Age-appropriate communication

It was difficult to tell from the survey responses how much interaction was taking place with children and the extent to which communication had been designed accordingly. Most financial institutions referred to training in general terms. Osper was exceptionally clear that *"we often speak to both parents and children; we keep our communication warm and relaxed to be as welcoming as possible"*. Considerable effort by them has gone into being able to deal with the common issues in a jargon-free way. The support team is trained in budgeting and uses role-play to develop the age-appropriate skills. Calling children during school hours is avoided.

9. Financial education programme

The survey contained questions about financial education programmes linked to the savings account. Six respondents had education programmes of which three were described as being linked to the account. All of these programmes were involved with schools and a number were in the form of school banks. For some institutions there was a policy of not having any link with its products to ensure impartiality. In other cases, particularly the credit unions, the savings were linked to the institution. Some of these programmes are very highly regarded and extensive. It would be difficult to incorporate the financial education delivered in schools as part of savings product certification.

Plans

There were a lot of institutions planning to make meaningful improvements to these accounts.

Lloyds Bank: customers would like to be able to access the account online and have indicated *"money management tools and educational games would be appealing"*.

Osper: among the many ideas that Osper is considering are rewards in app for positive behaviour e.g. reaching a savings goal or tagging all spends. They are considering extending to multiple goals, having picture/photo upload and improving tables/charts. Other developments relate to the schools and work experience programmes that they offer.

RBS/NatWest: developing a virtual moneybox app for parents to share with their children that helps them keep track of pocket money and learn the real value of money. *"When the parents pay their child in the form of an IOU using the App, they'll see their balance update and be able to track how close they're getting to a goal they've helped them set up (child friendly graphics). There are also plans for the app to contain educational material, directly linked to the national curriculum that helps them learn and earn more 'coins'."* In addition, they want to improve the child to adult transition customer journey and create a savings proposition tailored for older children (over 11 year olds) with milestone communications e.g. on birthdays.

Santander: developing new materials for its schools savers club, including an upgrade to the goals in its savings book.

State Bank of India: has high rate instant access, regular saver and fixed deposit accounts for young people up to the age of 16, all operated in trust by parents. They are looking to develop online capability.

The credit union respondents are focused on developing the school saver projects rather than their product offering.

9. Student Current Account

This is the first time we have surveyed this product and we had responses from five of the nine providers. As usual, we began by establishing what features a current account for students could have that would help them manage their money. The starting point is the same as the adult current account, but there are a number of differences identified below. We would like to thank the National Association of Student Money Advisors (NASMA), MAS and CYFI for their assistance in refining the questionnaire that was used to identify what financial institutions are offering.

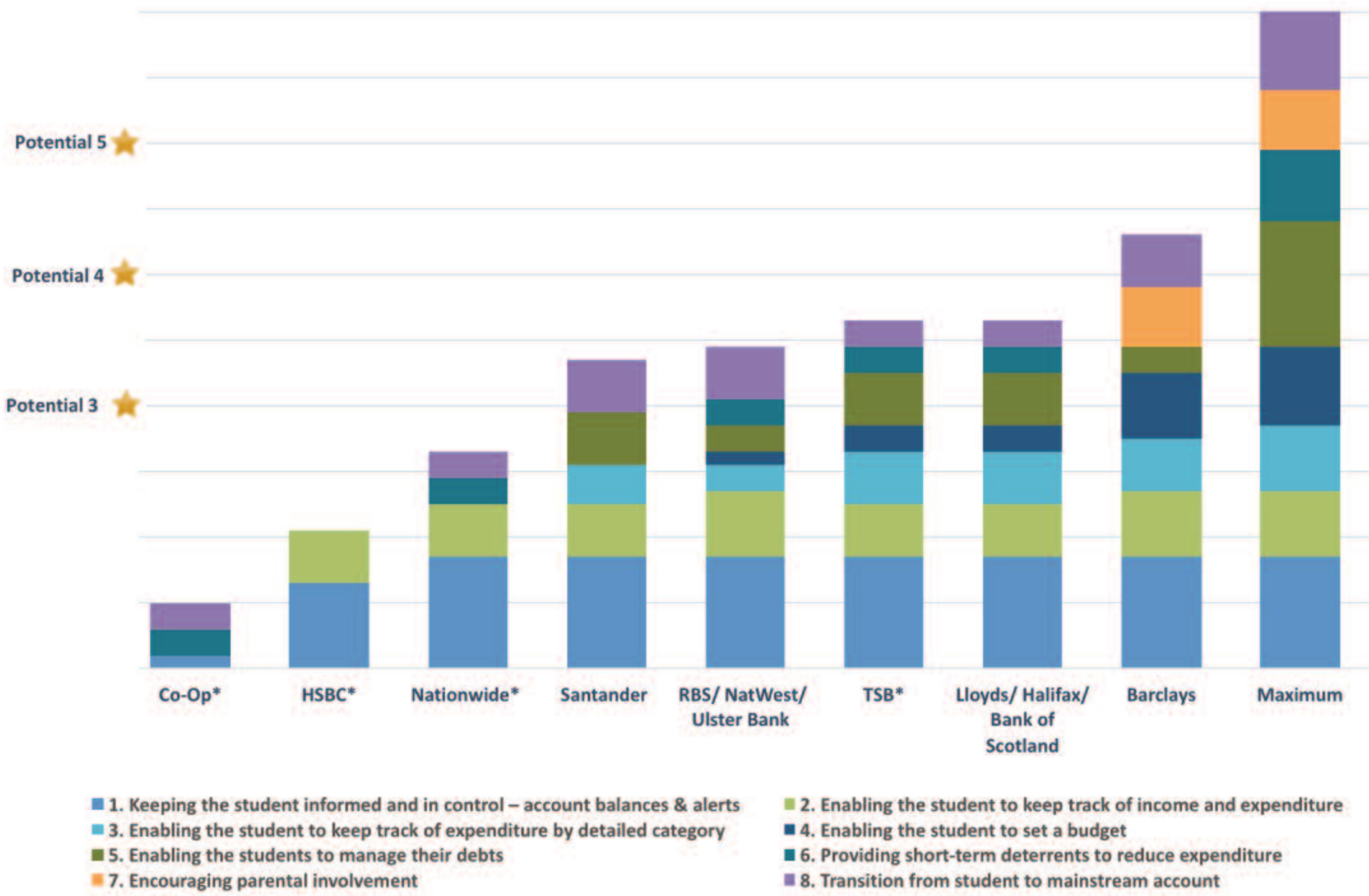
The first four categories are almost the same as those for a normal current account; helping customers be in control through messages, keeping track and budgeting. Given that they are not tailored to students it would be useful to test with the certification to see if students were actively using the features on offer. Students are likely to find it helpful to be able to show average income and expenditure per month over a term i.e. the period of a student loan payment. Other unique features for the student bank account which have potential to improve the financial well-being of students are as follows:

1. Short term deterrents to reduce expenditure

Deactivate card: rather than not take the card with them on a night out, the student could stop the card working and know that they would need to consciously make a decision to spend more on it. This is technically possible as the prepay children's cards have this feature. It may need to be combined with a reminder that it is available or a social norm message.

Weekly spend alert: the technology for this is available as it is simply the reframing of a balance alert to represent how much has been spent. The

Figure 32 Student Current Account – all rated products



*Non-responders to the survey, public information used.

problem for students using a balance alert is that at the beginning of term the balance will be high. The student needs to be encouraged to think of expenditure in periods that are much shorter than a term i.e. the over-spending information is presented in a salient form that is more likely to lead to action.

Weekly spend limit: a student is encouraged to set a weekly spend limit and an action is required in order to spend further. It may be sufficient to have an alert.

None of these three forms of control were promoted by any provider. The weekly spend alert could be constructed by the student using the balance alert where available, but given the lack of promotion, it is unlikely that many students are doing this. The accounts emphasise control as being an important part of what they are offering, but there is a lot more that could be done to make this a reality for students, particularly when opening the account. It is at this point that good habits could be encouraged.

Figure 33 Barclays Bank Life Skills webpage

2. Encouraging parental involvement

Facilitating parental advice: students are most likely to obtain financial advice from their parents. In behavioural terms they can be seen to be a trusted messenger. The current account provider can put into the hands of parents a way of facilitating these discussions in a positive way; games and other interactive tools could be influential.

Barclays Bank was the only provider to have a programme which engages parents, there are a series of tools for parents to help with building money skills, including "Your Money Personality", which aims to help a young person understand how they behave with money and so could improve. Another example is "Make it through the month" designed to consider wants and needs together with dealing with unexpected expenditure.

3. Enabling the student to manage their debts

The features, such as overdraft breach alerts and assistance with reducing an overdraft balance are included from the main current account specification. There are three additional features for the student account in this category:

Checking for only one overdraft limit: there should be a check that the student only has one overdraft from any institution. It is tempting for students to regard the many interest and charge free overdraft offers from the providers as being an opportunity to gain several overdrafts. This is not the intention of the banks, but we could not find any that are checking whether this is happening. More could be done to ensure that when the account is taken the student does not go on to open further accounts with providers that are not checking. This is a "default" intervention i.e. the default position is that the student has only one account with an interest free overdraft.

Temporary overdraft flexibility: there are nine providers of student accounts of which only two do not make any charge for authorised or unauthorised overdrafts (HSBC and Nationwide). Ideally an unauthorised overdraft should not be possible and in its new FlexStudent Account, Nationwide emphasises that transactions will be turned down; exceeding the authorised overdraft is unlikely. Neither a hard cut-off nor unauthorised spending is ideal for the student who has overspent in the first year. Some students would benefit from a small temporary overdraft increase (maximum of 3 months) to cope with unexpected expenses; the overdraft limit would be timed to reduce on receipt of student loan or other income. Three months would enable access to a hardship fund where the lead-time is at least five weeks. An interest free overdraft, while useful, is an extremely tempting spending opportunity and the providers can do more to support students that find they are struggling financially during a term.

It is important that students are aware of the different terms of the account that they will be moved to at the end of their course.

Encouragement to seek advice: students can be late in realising that they need to seek advice and it may be difficult to tell from the balance of the account that they are in difficulty. The providers could be signposting that students seek advice from their college. For example, a high proportion of colleges have members of the National Association of Student Money Advisors and there are links available. If a student has made contact with the bank/building society, the provider could check to see if the student had taken action and provide encouragement to do so.

Although providers do signpost to outside support agencies generally, no instances were identified where the signposting has been tailored to students. Providers of student accounts may not want to provide the support themselves, but more active signposting can be achieved.

4. Transition to Graduate/Adult Account

Awareness of arrangements: it is important that students are aware of the different terms of the account that they will be moved to at the end of their course. Most importantly the transition arrangements need to give sufficient time to make adjustments.

The notifications vary based on a minimum of 60 days' notice. Based on the responses, some institutions provided a lot more support than others during the transition phase. The seven providers with graduate accounts gradually reduce the interest free overdraft over a two or three year period or maintain the interest free overdraft constant for a period after leaving college. Co-op Bank moves students to a normal bank account after a year and Halifax does likewise with a six month extension on the interest free overdraft. These arrangements will not all be equally good for students and it is important that the provider is showing some flexibility during the transition phase.

Flexibility for students that have not found employment or have other difficulties: for those institutions giving a three year transition period, this does represent a significant period to establish an income stream to support the overdraft. It was not clear from the responses that there were any special arrangements beyond those for other customers that have difficulty. If the product was being certified by the Foundation this is an area that could be evaluated. One area where the lender could provide support is in suggesting that students apply for the government benefits to which they are entitled, many are reluctant to do this and make their situation worse as a result.

Educational support for entering workplace: it is known that we are most likely to be able to make behavioural change when a life event occurs. Financial institutions have an opportunity to provide financial management support as a student enters the workforce e.g. tailored budgeting, awareness of bills, how to reduce overdrafts/credit card balances and obtaining a good credit rating.

This answer from Barclays showed that they are trying to deliver useful support, *"Lifeskills offers tools, content and information to help new graduates understand their payslip, budgeting, cost of borrowing and tips for staying out of debt. Additionally, there is functionality to help graduates build a better CV, prepare for interviews, learn how to network effectively, apply for jobs and succeed in the workplace" (see Figure 33).* It would be interesting to evaluate whether this programme was engendering the behaviour change it is designed to achieve.

5. Fairness Factors

The approach to granting the overdraft is not part of the certification, especially as they are all similar. As part of a certification process, it would need to be checked that it was not causing detriment. The interest and charge free overdraft is the feature that has the most value to students. It is much more valuable than the various giveaways that are provided to encourage account opening. The maximum available first year overdraft ranges from £1,400 to £3,000 with some providers providing gradual increases through to the third year. The graduate accounts, provided on leaving further education, mostly work in the reverse direction by gradually reducing the overdraft balance. In principle, this seems a logical approach, but is this really encouraging the right behaviour? Some students regard the overdraft as "free" money and have an objective of using the maximum as it becomes available. Some will have the view that it is "normal" for students to use the maximum overdraft balance. The survey did not ask questions about whether this approach to offering free overdrafts was causing problems for some students. Unfortunately, it seems likely that just as the minimum credit card payment has an anchoring effect for some on how much they repay, the overdraft limit may have a similar effect. It may be better for students to incentivise them to start the beginning of each term with a zero overdraft. This would require more research, but the broad similarity of approach taken by the providers does not necessarily mean that it is the best for young people.

10. Mortgages

This is the first time that we have surveyed mortgages. When we begin the process of developing a new certification we are considering how customers can be helped to improve their financial well-being. Our focus is on the behaviour that the financial institution is hoping to support and whether giving the current state of knowledge, the features of their product are working towards this aim. Some of the features are required under the Mortgage Market Review, but our interest is the quality of implementation and whether customer behaviour has been impacted. The feature needs to do more than comply with the requirements and be clear, it should be designed to trigger a positive action or overcome a barrier to inaction.

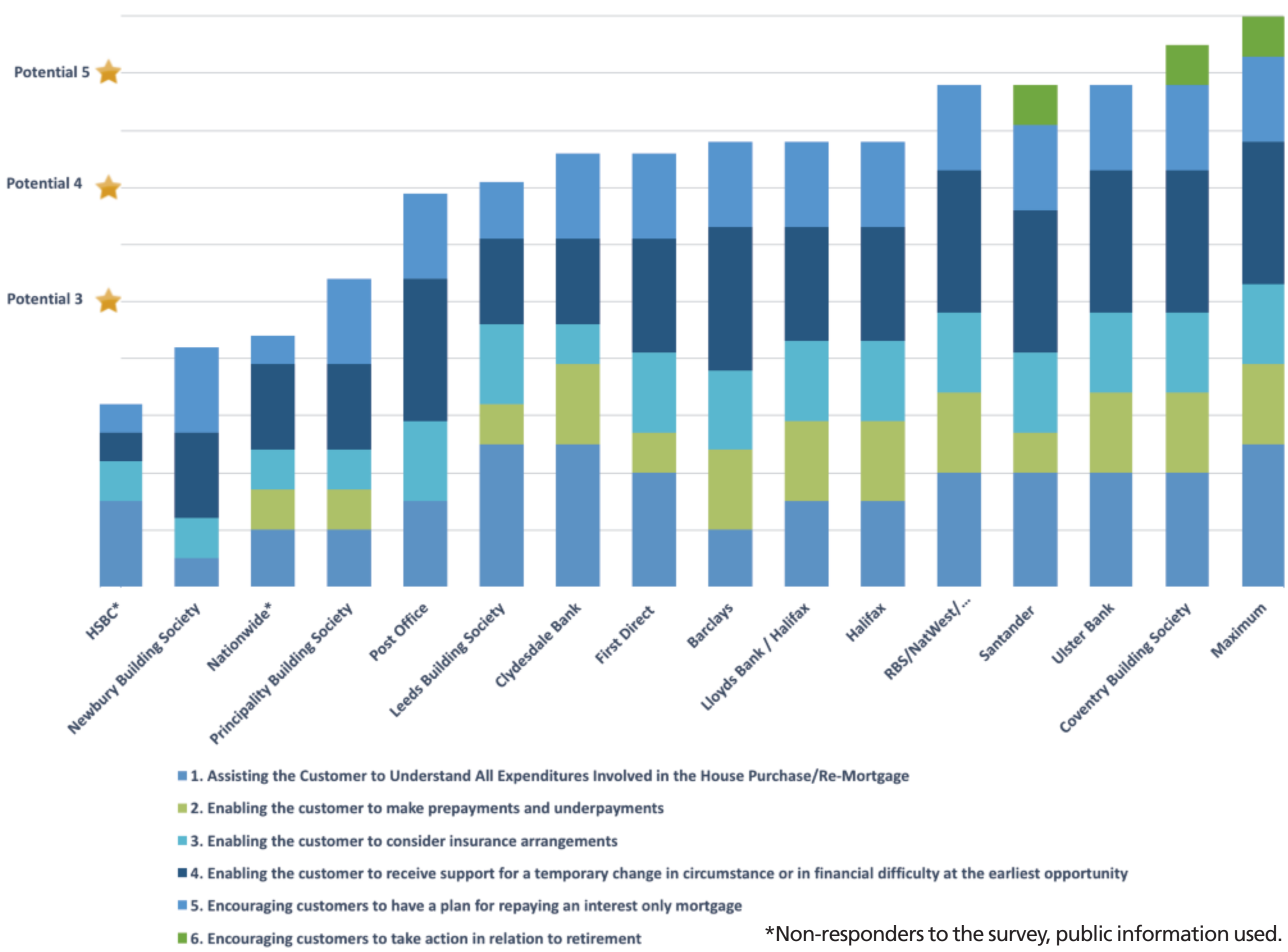
There are 12 participants in the survey and the quality of the responses was good i.e. all the organisations went to some effort to provide sufficient information to understand what they do in the areas focused upon. The questions followed a series of consultation meeting to identify topics and the results are divided into five sections. The survey asked separately about the treatment of customers facing what they thought was a temporary payment problem and those that were in significant difficulty. The response of the lenders to each topic was so similar that they are combined.

The scores shown in figure 34 are primarily taken from the self-assessment of the lenders, although some adjustments were made positively and negatively where it was clear there was a misunderstanding of the expectation.

1. Understanding all expenditures involved in house purchase/re-mortgage

Making sure that a realistic view is taken of all possible costs: This is clearly recognised as an issue,

Figure 34 Mortgages – all rated products



*Non-responders to the survey, public information used.

particularly for first-time buyers who are prone to underestimating the costs and as a result suffering post-completion accordingly. The solution from lenders is to provide a page on a website (e.g. "other costs of buying a home" or a section in a guide that covers the key points (e.g. "costs to consider when moving or re-mortgaging"), generally at a high level. If the objective were to make sure customers have considered these costs properly and taken action in their budgeting, it is unlikely that many of these approaches have been successful. It is difficult to know without testing with mortgage applicants post-completion to see the level of surprise with the ultimate costs and whether the information/tools provided made a difference.

If these approaches are not working there are others that could be tried such as providing a calculator where the customer inputs the relevant figures, potentially with realistic prompts or showing what other customers did to avoid the problem of underestimation.

The Leeds Building Society has a comprehensive first time buyers' fees checklist which contains 10 items: Mortgage Booking Fee, Arrangement Fee, Account Fee, Telegraphic Transfer Fee, High Lending Charge, Survey Fee, Valuation Fee, Legal Fees and Searches, Stamp Duty and Moving Costs. This list comes with

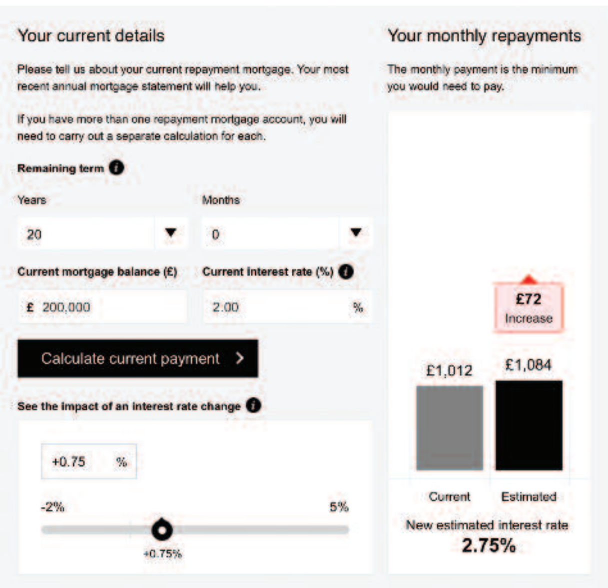


Figure 35 First Direct mortgage calculator

explanations with the objective of making these clear.

Interest rate increases: although interest rate increases may not be imminent, it is quite possible that costs can rise if less competitive mortgage deals are available. It is going to be difficult to encourage customers to consider this carefully and not over-stretch themselves. There are very different approaches taken by the respondents: some put comments and illustrations into documentation, some use one rate increase example e.g. 0.5% increase, some emphasise that they stress-test during the process to ensure the mortgage is affordable at higher rates and some provide rate change calculators. Bank of Ireland has put together a range of information under the heading "interest rates – planning ahead". First Direct, Halifax and NatWest all have good examples of calculators. These approaches will not all lead to customers considering for themselves whether they have a buffer or to act on information; it is far from clear which is the best approach, but making the potential increase salient to customers is important.

Post-purchase running costs and other cost (e.g. repairs, furniture, decorating, extensions etc.): This is an area where it is known the people can misjudge costs with the result that post-move financial anxiety develops. Some institutions do not directly address this issue other than in trying to ensure that the budget calculation done as part of the application is correct, the advisory process in intended to incorporate this. It would be hoped that literature or websites would do more than raising the topic, which some do e.g. Leeds Building Society under the heading "take an honest look at your spending". Coventry Building Society is *"re-writing specific copy under a section entitled 'Have you saved or borrowed enough to cover these costs?', our materials will be giving examples/averages for the following areas: surveys, removals, furniture, essential renovations and many more areas"*. The scores in the graph have not been adjusted downwards, but it is likely many organisations would revise how they assist customers with this if they were applying for a Fairbanking Mark. Some institutions provided the information given to intermediaries, for example, Clydesdale Bank was clear that it wanted estimates of the household running costs following the purchase. The advisory process itself would be checked through specific customer feedback as part of the application for a Mark.

Encouraging a contingency buffer for the unexpected: There are often unexpected expenditures and it is important that following the house purchase there is an amount set aside. Some institutions interpreted this in the context of a change in circumstances; others stated that it should be covered in the advisory process. There is the occasional passing reference to it in documentation. We had considered that encouragement to do this shortly after the move might be effective. Overall, it seems unlikely that even the financial institutions that said they were doing this are affecting the behaviour of customers.

2. Enabling the customer to make prepayments or underpayments

We did not find encouragement for customers to do this, but many of the lenders allow 10% early payment without charges. It was more difficult to identify whether the customer easily has the ability to draw down the payment again in case of need or the criteria under which it would be permitted. There is no repayment cap on Standard Variable Rate or off-set mortgages. Lloyds/Halifax describes its charge free overpayment as a "concession" that may be withdrawn. It makes it clear that underpayments will be permitted provided the repayment has not been recalculated, which limits the drawdown period considerably. In general, the feature to prepay and re-borrow is not readily available and it is not clear that customers would use it for a cushion. We will not include this in the certification.

3. Enabling the customer to consider insurance arrangements (buildings, contents, life, illness, income protection)

There were very mixed approaches to highlighting the potential need for protection insurance and how to obtain advice on it. Some institutions highlighted that it was part of the advisory process, whereas others, such as Coventry Building Society, went to considerable lengths to provide explanations and raise it for careful consideration. Some did not appear to raise it beyond the building itself. Many people are under-insured and it is a pity that at such a key time of taking on a mortgage commitment, customers are not motivated to consider their insurances more broadly. It is possible that the advised process is achieving this, but it would require testing. There was very little response to the question about encouraging customers to consider their insurance arrangements when facing a change in circumstances or a life event.

4. Enabling the customer to receive support when facing a change in circumstance or in difficulty

Questions were asked separately about temporary circumstance changes (e.g. payment holiday need) and customers in difficulty. Somewhat surprisingly the answers for the two sets of questions were so similar that it is not worth drawing a distinction. Hopefully the way in which the customers are treated meets the very different needs.

Advising customer to make contact: we had thought that a reminder of the arrangements soon after the mortgage was completed by e-mail or message would have been helpful to customers; it may emphasise that it would be better to contact the lender at the first sign of a temporary problem or more long term difficulty i.e. prior to missing a payment. This is not being done. The annual mortgage statement contains contact information to be used when in payment difficulty and for some customers this may be helpful. Most institutions are relying on customers going to the relevant pages of their website or brochures. All institutions consider it easy to reach the right area that will be able to give support.

Flexible options: some financial institutions make it clear what the alternatives may be for the customer e.g. extend term, add arrears to mortgage, move to interest only. Other institutions will present the options when the customer makes contact. Bank of Ireland/Post Office Money on its "Payment Difficulties" web page demonstrates that a variety of options can be described and uses the tabs "What you can do", "Tools to help" and "Useful links" to encourage action by the customer. Lloyds/Halifax is very similar with its exhortation "Please don't ignore the problem". Barclays highlights its use of the Money Advice Service leaflet, which sets out the pros and cons of the various alternatives that a lender may offer. Santander believes it is unhelpful for the customer to "self-diagnose which would suit them without lender support". Given the variety of approach it is very unlikely that all are equally effective in encouraging customers to act and know what may happen next.

Time to consider the options: Leeds Building Society, RBS and Barclays provided clear options and timings for suspending collection activity while the customer was given time to gather information, seek external advice or consider the options given to them. Some lenders made the valid point that it depended on the customer's circumstances. It is difficult to gauge whether the right balance is being struck without a customer survey. Given that lenders are only providing the options and will not advise as to which the best is for the customer, it is important that enough time is allowed to seek advice.

Referrals to other agencies: all lenders are providing information for referral to support providers, such as the Money Advice Service and StepChange. This is being done through websites, literature and advisors.

Follow up: a variety of responses were received with follow up after a "breathing space", the follow up being part of a "workflow" process and various other review processes. Again, it was difficult to tell from the responses which was the most effective.

5. Encouraging a repayment plan for customers moving to interest only mortgage

Lenders take considerable steps to ensure that customers have considered the repayment plan when moving to an interest only mortgage and review it for credibility.

There are lots of reminders from lenders, but the problem is likely to be the extent of customer action. There are reminders with the annual statement, specific contact strategies asking for confirmation that the repayment vehicle is still sufficient and offers of advised discussion with specialists. Bank of Ireland on behalf of Post Office Money has clear pages on its website, which appear to be comprehensive, even providing a Repayment Strategy Form. The questions we would ask from a customer perspective are to do with motivation i.e. whether the customer is being motivated to take action now rather than simply put off any action or thought on the issue.

It is not clear from the replies whether all lenders are reminding customers of their repayment strategy. Some are definitely doing this, for example, RBS/NatWest is requesting regular maturity projections with the potential for an advisory meeting to consider a shortfall. Leeds Building Society has a similar approach through a suite of letters and Coventry Building Society provided detailed information on the different letters according to whether a strategy is known or not.

6. Triggers to adjust as customer gets nearer retirement

It was interesting to note that some lenders recognise the issue that customers can approach retirement without the mortgage being repaid. The best response was from Santander stating *"we recognise that some customers' circumstances change during the term of their mortgage and for that reason we have some solutions for customers (for example a referral process to a specialist in lifetime mortgages which may be discussed with interest only customers post-maturity as a possible longer term solution). The important point is that customers who are unable to repay their mortgage on or before the originally agreed (pre-retirement age) term are supported at maturity to agree appropriate solutions for repayment of the mortgage borrowing (this may include a term extension for example)"*. Barclays are considering what more can be done for this group of customers. There are many reasons why a customer may need or want to continue with a mortgage post-retirement. Features or product flexibility are needed for the older age group and should be included in the certification.

Appendix 1 – Children's Savings Accounts

Widespread research has shown that habits and practices developed by children are likely to carry forward into adulthood or at least inform decisions in later life. There are no studies relating to child interventions in respect of building savings that specifically trace the difference to financial well-being or behaviour in later life in developed countries, such as the UK. There are some valuable studies that show that enabling children to have their own "pot" of savings in developing countries can have many benefits for employment, independence, education and security. The complexity of financial management for adults in developed economies means that good practice and the desired outcomes are different. The following observations are taken from a range of reports listed below examining financial management of young people in developed and developing economies. There are many other reports, but often the findings are difficult to generalise and some contradict each other.

By combining research into child behaviour and interventions known to affect adult behaviour it is possible to identify a number of features of child savings products that are likely to be a benefit. They need to be designed with specific age groups in mind.

A key point is that goals change as young people get older, so that savings tools and support should reflect this by ensuring that the tools provide age appropriate motivation.

As with adults, there needs to be an access barrier to the savings which is set up by default as part of the account; this will reduce temptation to access the savings prematurely.

Before the age of 5, there is no scope for financial institutions to support the educative activity in savings, as the sense of time is not developed, so the concept of delaying gratification will be unsuccessful.

5–7 years

Athough savings accounts may be opened in the name of the child, it is only with associated educative materials that there is a modest potential for habit formation. The main challenge is that any goal setting is likely to be quite short term i.e. one month or less. At this point a child is building understanding of value concepts such as large coins having the potential to have less value than small coins.

The product at this age group will have specific *parental involvement*. Successful parental involvement will involve educating the parent in age appropriate financial management in order to impart it to the child. At this age there should be scope for education in *needs and wants*. It should be possible to have exercises that encourage this. This is part of developing understanding of *choice*, which enables the child to get a reward later. It may be possible to *prime* the child to think of the attractive future e.g. being able to take bike rides with parent, rather than immediate consumption of sweets, for example.

Any education elements need to be experiential rather than informative.

Bank staff as "teachers": it is possible that bank staff could be helpful if trained to give encouragement. A "warm and positive" relationship will be influential in savings by encouraging the self-regulatory behaviour that is required.

Very influenced by visuals: money boxes and materials while being attractive need to not let the visual overwhelm the message, otherwise may have slightly negative consequence e.g. just want money box for appearance not purpose, or collecting stickers because of appearance not what they represent.

7–15 year olds

There will be a transition in ability and needs during this period. There is scope to develop savings habits, potentially building on the 5–7 year intervention. The product content may need to transition with different messages at different ages, for example. The sources of income are likely to expand so there will be scope for saving from earned money as well as money received as gifts or pocket money. For the young person they will need opportunities for *experiential learning* with budgeting, saving and goal-setting. There is evidence that having a bank account, rather than just a simple prepaid card, will add to financial literacy.

The studies from developing countries raise a question as to whether in the UK it could be important for some older children to save for unexpected needs that their parents do not cover. Whether there is sufficient need to create a systemic response is not clear, but this could be a relatively hidden societal issue in the UK.

16–21 year olds

The messenger may be important i.e. some evidence that may learn from *22–29 year olds who regret the mistakes they have made*. This could be an instance when consequences do change behaviour if the young person can see themselves in the not too distant future. The older group are more likely to be aware of their financial situation by having a good understanding of their bank balance etc. They are more likely to focus on financial commitments such as bill payments, being in control of spending and being able to say "no" when required. They will have become more goal-oriented and have learnt, often the hard way, to manage money sensibly.

There are likely to be opportunities for *parents* to create safe learning opportunities and these could be encouraged. Parents are more likely to engage if they are given the sense that providing education opportunities in this way was a normal part of parenting. It is a challenge to promote this approach if the parents do not save for bills or the unexpected as part of their household management.

This is the key period for growing expenditure management skills. The complexity of income is likely to grow and with it the need to keep track. Tools to keep track of income and expenditure are needed and if this can be linked with advice from parents or trusted "messengers" this would be a powerful combination.

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Appendix 2 – Methodology

1. Financial well-being and behaviour change

The Money Advice Service published its report *Measuring financial well-being identifying the building blocks: understanding what drives and inhibits consumers' financial wellbeing and resilience* in November 2016. It is a summary of statistical analysis of the 2015 UK Financial Capability Survey[1].

It uses regression and principal components analysis to identify the most significant factors to determine financial well-being. This builds on earlier research and as a result the Fairbanking Foundation is using it as the basis for identifying the features in products that are likely to be most helpful to the customers of financial institutions.

A. Current Financial Well-being (CFWB)

A number of factors were combined in the measure of well-being, which can be summarised as follows:

1. Subjective well-being:
- level of satisfaction with financial circumstances
- level of anxiety when thinking about financial situation

2. Bills/credit commitments:
- whether a burden or struggle
- whether missing payments or incurring charges

3. Short-term cushion:
- whether can pay unexpected bill of £300

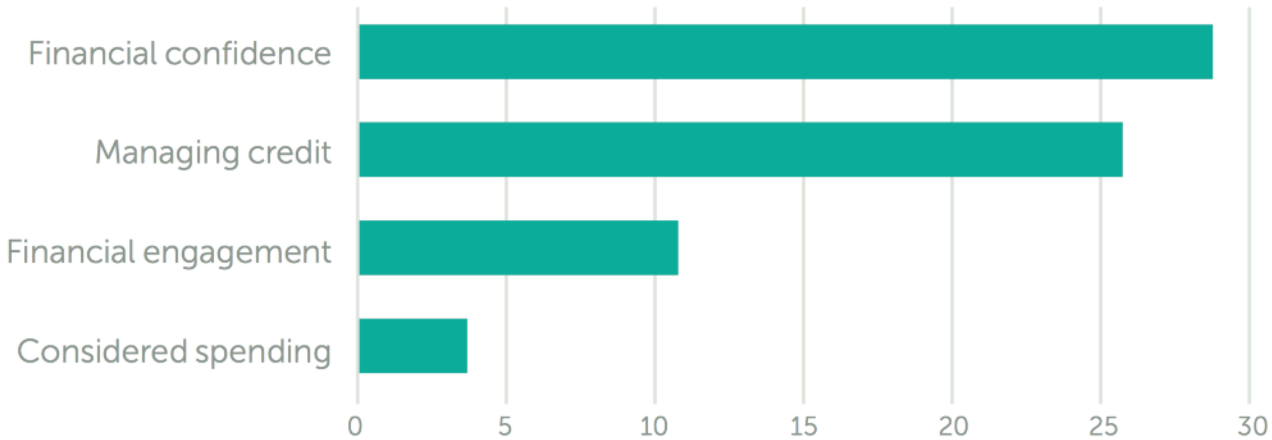
The report also considers longer-term financial security, primarily driven by building resilience. CFWB is the focus in this report as this is what the banking products in this report can influence most easily.

B. What drives or inhibits CFWB

Figure 36 illustrates the relative importance of the four factors that explain around half of the change in CFWB:

1. Financial Confidence
- feel confident managing your money,
- feel confident making decisions about financial products and services

Figure 36 The individual components with the greatest influence on current financial wellbeing



Note: Analysis based on behaviours and enablers and inhibitors only and shows the relative coefficients from the regression (x100).

1 *Defining, measuring and predicting financial capability in the UK: Technical Report*; MAS (2016)

2. Managing Credit
- plan for paying down debts
- less unsecured borrowing
- think debt is less than average
- reducing credit card balance and paying more than the minimum
- agree with "I hate to borrow, I would much rather save up in advance"

3. Active Saving
- frequency of saving
- number of types of expenditure saved for (expected and unexpected)

4. Financial engagement
- Disagree with "I prefer to live for today rather than plan for tomorrow"
- Disagree with "Nothing I do will make much difference to my financial position"
- Disagree with "I am too busy to sort out my finances at the moment"

There are socio-demographic factors that are important that are explanatory, but these cannot be influenced with financial product features.

C. Behavioural economics

The Fairbanking Foundation has been encouraging the more widespread use of behavioural approaches by financial institutions to encourage customers to take action that is in their interests, improving CFWB. Frameworks such as MINDSPACE and EAST are being more widely used to identify suitable interventions for testing and implementation. There is growing evidence of the effectiveness of the following behavioural approaches in particular:

Default: this is the most powerful intervention. A good example is where messages that have a good behavioural response are made automatic rather than requiring customer sign up.

Salient information: making a certain key piece of information stand out encourages engagement e.g. positioning "rainy day" savings in a list, making the amount remaining prominent in a budget planner.

Social norms: giving customers information about what others are doing can alter behaviour, especially when combined with an indication as to whether a person is relatively good or bad. Examples include encouraging saving and reducing expenditure.

Messenger: because we are influenced by the messenger, it is possible to intervene through this route e.g. by giving parents better tools to engage with their children.

Ego: we want to act in line with how we see ourselves; this is being used to overcome procrastination and honesty issues by reminding customers of how a decision could be viewed.

Commitment: if we make a commitment we are more likely to follow through. This is especially powerful when combined with feedback for plans to increase savings or reduce debt.

Incentives: little use made of financial incentives, but there is scope for this, especially through reward schemes. Some non-financial incentives are used through encouraging and congratulatory messages at key milestones.

2. Fairbanking Ratings Methodology

For each product, key features are identified which are likely to improve the financial well-being of customers when used. The features in the rating are grouped into categories as follows:

Adding the score for each feature arrives at an aggregate score. The features do not carry equal weight. Three new products were included in the 2016 survey.

3. Fairbanking Survey Methodology

In partnership with Z/Yen Group Limited (Z/Yen) the ratings questionnaires were developed which examined the features for each product contained in Appendix 3.

A total of 84 financial Institutions were approached covering a total of 249 products over 8 product categories.

The 31 participants are detailed in Appendix 4. In addition 21 Credit Unions participated out of the 40 that were approached.

Financial institutions that did not respond were advised that products may be included in the report if there was sufficient public information available, mainly from websites. In some cases this has been done and it is indicated accordingly on the graphs in the report. It is recognised that features may have been missed when the institution does not make it clear they are available.

Product	*Number of features*	*Number of categories*	*New features*
Current Account with overdraft	22	5	3
Current Account without overdraft	18	6	3
Credit Cards	23	4	10
Personal Loans	12	4	0
Regular Savings	19	6	0
Children's Savings	22	8	N/A
Student Current Account	30	8	N/A
Mortgages	18	6	N/A

Product	*Current Account with overdraft*	*Current Account without overdraft*	*Credit Cards*	*Personal Loans*	*Regular Savings*	*Children's Savings*	*Student Current Account*	*Mortgages*	*Total of Institutions*
Participating	7 (22.5%)	6 (38%)	13 (40%)	12 (31%)	14 (26%)	8 (32%)	5 (42%)	11 (28%)	31 (37%)
Declined	7 (22.5%)	9 (56%)	7 (20%)	10 (34%)	14 (26%)	8 (32%)	2 (16%)	13 (31%)	21 (25%)
No Reply	17 (55%)	1 (6%)	13 (40%)	17 (43%)	25 (48%)	9 (36%)	5 (42%)	17 (41%)	32 (38%)
Total	31	16	33	39	53	25	12	41	84

Appendix 3 – Specifications

New features are highlighted in yellow

Product Specification – Current Account with Overdraft

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

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

1.1 The product provides the customer with the ability to trigger a message if the balance has reached a certain level, preferably determined by the customer (without the customer having to sign up for alerts).
1.2 The product provides the customer with the ability to trigger a message if the account balance goes over a maximum level, preferably determined by the customer(without the customer having to sign up for alerts).
1.3 The product has features designed to increase the visibility of the account balance e.g. automatic balance on mobile app when turned on or account balance presented on last transaction.

2 Enabling the customer to keep track of income and expenditure

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

2.1 The product enables the customer to track their overall income and expenditure, i.e. the product provides a summary of the overall income received for a period and the overall expenditure spend during that period.
2.2 The product enables the customer to produce or receive an income/expenditure time profile i.e. the customer can look at the change in income and expenditure over time.
2.3 The product enables the customer to produce different views of income and expenditure (e.g. pictures and numbers).
2.4 The product alerts the customer to opportunities for regular saving e.g. for rainy day or other reasons.

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

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

3.1 The product enables the customer to review expenditure by detailed category e.g. dining out, petrol, groceries, entertainment.
3.2 The product enables the customer to review expenditure by category through time i.e. the customer can look at how expenditure categories change over time (e.g. pictures and numbers).
3.3 The product enables the customer to produce different views of the expenditure categories (e.g. pictures and numbers).
3.4 The expenditure category functionality allows for comparison with others e.g. an average for other customers spending habits for each category (perhaps with similar income levels).
3.5 The product enables forecasting of future expenditure (e.g. using information on regular bills to identify a potential deficit based on previous or current income).

4 Enabling the customer to set a budget

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

4.1 The product enables the customer to set an overall budget.
4.2 The product enables the customer to set a budget by different categories e.g. dining out, petrol, groceries, entertainment.
4.3 The product tracks the actual expenditure against the set budget.
4.4 The product provides alerts with helpful prompts to amend budget plan if circumstances change.
4.5 The product gives incentives for achieving plan.

5 Enabling the customer to manage an overdraft

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

5.1 The product has an automatic tool to forecast overdraft growth, provide alerts and identify appropriate options for reducing the overdraft amount.
5.2 The product enables customers to set a plan to reduce debt.
5.3 The product gives incentives to meet plan.
5.4 The product notifies the customer with a message if the balance is near the authorised credit limit.
5.5 The product notifies the customer with a message if a debit transaction/s will take the balance over the authorised credit limit that day enabling the customer to take remedial action.

Product Specification – Current Account without Overdraft

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

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

1.1 The product provides the customer with the ability to trigger a message or an alert if the balance has reached a certain level, preferably determined by the customer (without the customer having to sign up for alerts).
1.2 The product provides the customer with the ability to trigger a message if the account balance goes over a maximum level, preferably determined by the customer (without the customer having to sign up for alerts).
1.3 The product has other features designed to increase the visibility of the account balance e.g. automatic balance on the mobile app when turned on or the account balance presented after last transaction.

2 Enabling the customer to keep track of income and expenditure

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

2.1 The product enables the customer to track their overall income and expenditure i.e. the product provides a summary of the overall income received for a period and the overall expenditure during that period.
2.2 The product enables the customer to produce or receive an income/expenditure time profile i.e. the customer can look at the change in income and expenditure over different time periods.
2.3 The product enables the customer to produce different views of income and expenditure (e.g. pictures and numbers).
2.4 The product alerts the customer to opportunities for regular saving e.g. for rainy day or other reasons

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

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

3.1 The product enables the customer to review expenditure by detailed category e.g. rent, utilities.
3.2 The product enables the customer to review how expenditure in categories change through time i.e. the customer can look at how expenditure categories change over different time periods.
3.3 The product enables the customer to produce different views of the expenditure categories (e.g. pictures and numbers).
3.4 The expenditure category functionality allows for comparison with others e.g. an average for other customers spending habits for each category (perhaps with similar income levels).

4 Enabling the customer to set a budget

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

4.1 The product enables the customer to set an overall budget.
4.2 The product enables the customer to set a budget by different categories e.g. rent, utilities.
4.3 The product tracks the actual expenditure against the set budget.
4.4 The product provides alerts with helpful prompts to amend budget plan if circumstances change.
4.5 The product gives incentives for achieving plan (non-financial and/or financial).

5 Forecasting to enable the customer to live within means

This section looks at features that help customers forecast whether they will run out of money to pay regular bills in a period, enabling customers to take action.

5.1 The product enables forecasting of expenditure to identify possible shortfalls..

6 Ring-fencing of bill payments to give reassurance that these bills will be paid

The section looks at features that help customers ensure that regular bills are paid prior to money being made available for other purposes.

6.1 The product supports ring fencing of expenditure e.g. regular bills vs discretionary spend.

Product Specification – Credit Card

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

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

1.1 The product provides the customer with an automatic reminder message to make the monthly payment (without the customer having to sign up for alerts)
1.2 The product provides the customer with a reminder message if the account balance is approaching its credit limit (without the customer having to sign up for alerts).
1.3 The product provides the customer with other reminder messages, for example when 50% or 75% of the limit is used.
1.4 The product enables the customer to set a customised account balance that triggers a reminder message when reached.
1.5 A message of balance of account is available on request at any time.
1.6 The customer has to agree to opt in when a credit limit is offered.
1.7 Notification of a credit limit increase is done in such a way as to encourage the customer to consider whether it is advisable
1.8 For customers who are offered a credit limit increase, it is determined that the increase is in their interest e.g. not given to customers paying the minimum balance only.

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

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

2.1 The product enables the customer to review expenditure by detailed category e.g. dining out, petrol, groceries, entertainment
2.2 The product enables the customer to review expenditure by category through time, i.e. the customer can look at how expenditure categories change over time.
2.3 The product enables the customer to produce different views of the expenditure categories.
2.4 The expenditure category functionality provides a comparison with others e.g. an average for other customers (perhaps with similar incomes) of how much they spend in each of the categories.
2.5 The product enables the customer to set a budget by different categories e.g. dining out, petrol, groceries, entertainment
2.6 The product tracks the actual expenditure against the budget for each category set.

3 Encouraging the customer to repay as much as they can afford

This section looks at features that encourage customers to repay more than the minimum amount if they can afford to do so.

3.1 The product gives alternatives to making the minimum payment that encourage the customer to consider what they can afford (de-emphasising the minimum as a default).
3.2 Customers making the minimum payment are contacted in a way that encourages them to make a larger payment if they can afford it and it is financially appropriate for them.
3.3 It is possible to easily pay all or part of the balance, including with a debit card.
3.4 It is straightforward to pay any amount including the full balance by direct debit.
3.5 The customer is allowed and encouraged to select a payment date that is soon after they receive monthly income.

4 Enabling the customer to plan repayments to reduce debts

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

4.1 The product shows the customer how long different repayments will take to reduce the outstanding balance/debt.
4.2 The product enables the customer to set up a repayment plan to reduce debts.
4.3 The product give incentives to meet plan/reduce debt.
4.4 A loan at a lower rate is made available automatically to customers that have been paying the minimum for 3 months as a method of helping the customer to reduce the outstanding balance.

Product Specification – Personal Loan

1 Enabling the customer to borrow an amount that they can afford

This section includes features that enable the customer to consider whether a loan is appropriate for them and whether they can afford the repayments for the loan.

1.1 The product provides the customer with the ability to understand the amount of repayment for different repayment periods and loan amounts.
1.2 The product provides the customer with a tool to work out whether they can afford to repay the loan (e.g. a budget planner) designed appropriately for the customer.
1.3 The product specifically enables the customer to consider the total amount of debt, including the new loan, that they will need to service if the loan is approved.

2. Enabling the customer to easily make repayment, including paying early.

This section includes features that enable the customer to make a payment easily and reminders to do so if appropriate. The objective is to make it as easy as possible for the customer to make a repayment. For some customers, repaying early will reduce worry and reduce vulnerability to a change in circumstance.

2.1 The product allows the customer to repay early or overpay without a fee or charge.
2.2 The product has encouragements to repay early, such as reminders that this is possible during the life of the loan.
2.3 The product encourages the customer to set the payment date so the loan payment is taken shortly after income has been received.
2.4 The product encourages the use of a direct debit or standing order or some other automated regular payment mechanism e.g. payroll deductions to make the regular payment.

3. Ensuring efforts are made to help the customer act in their best interests if the customer has experienced a change in circumstances

This section includes features designed to ensure that the customer takes action at the earliest time if they face difficulty. It considers how the customer is treated given that their circumstances may have changed and the way in which the customer is supported.

3.1 A customer that misses a payment is encouraged to take action if they are finding payment difficult including the possibility of a revised repayment plan.
3.2 The customer is offered a plan to repay at an affordable level at the earliest opportunity.
3.3 Customers are made aware of the possibility of a revised repayment plan prior to a missed payment due to financial difficulty.

4. Establishing a connection between the loan and savings as an alternative

This section includes features that provide a connection between using income for savings and using it to repay a loan. A savings ability/habit may be developed as a result of these features.

4.1 Encourage an element of saving simultaneously with the debt repayment to encourage the saving habit and provide an incentive to further saving when the loan is completed.
4.2 On making the final payment the customer is encouraged to use either all or a proportion of the available money for regular savings.

Product Specification – Regular Savings

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

This section looks at features that are more likely to lead to savings action by making a commitment to a specific goal.

1.1 The customer has the functionality to set up a savings goal or "pot".
1.2 Different goals or "pots" can be set for different purposes e.g. wedding, car, holiday.
1.3 Goals or "pots" can be personalised e.g. not just a pre-set purpose but named by the customer.
1.4 Tools are available to help the customer identify different combinations of amount and time periods to meet their regular savings objectives.
1.5 The customer can produce or see different views of the savings goals e.g. pictorial, tabular display, video.
1.6 The customer is provided with "norms" for example average monthly savings amounts for other "similar customers" or for "similar goals" for information.

2 Providing the customer with feedback

This sections looks at feedback that gives the customer information on the progress they are making in a way that motivates.

2.1 Feedback is provided on how savings are building to reach a goal.

3 Setting up a "rainy day" fund

This section looks at features that encourage people to have a contingency for unexpected expenditure.

3.1 The customer is able to set up a "rainy day" fund for emergencies.
3.2 If a customer uses their 'rainy day' savings, encouragement is given to re-build the fund.

4 Setting up a budget

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

4.1 There is an integrated tool that enables the customer to set a budget to determine a realistic amount for saving which is linked to their goals or 'pots'.
4.2 The product enables the customer to produce different views of the budget tool e.g. pictorial or tabular display.

5 Setting up payments

This section looks at how straightforward it is to set up a regular payment as a result of either having set a goal or creating a budget.

5.1 The customer is prompted to set up payments as a result of the goal-setting and/or budget setting process.
5.2 There is an easy mechanism for setting up payments to the regular savings product.

6 Providing motivation and incentives to continue with or re-align a goal

This section looks at features that provide customers with messages that encourage them to continue with or re-align goals and at financial incentives to encourage customers to continue with saving.

6.1 Encouragement is given to the customer to keep on saving even if on target.
6.2 Encouragement is given if the customer falls behind to get back on track without "beating the customer over the head" e.g. the customer can switch-off or control messages.
6.3 Encouragement is given even if the customer falls behind and doesn't "recover" to keep on saving e.g. the customer can re-align the goal to a more realistic target.
6.4 The customer can produce or see different views of the "encouragement" e.g. pictorial, tabular display.
6.5 The customer is encouraged to establish a new goal when a goal has been achieved
6.6 Incentives provided to the customer that are designed to encourage commitment that is continuous i.e. not just geared to achieving a specified objective.

Product Specification – Children's Savings

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

This section looks at features that are more likely to lead to savings action and to ongoing commitment. The child is encouraged to differentiate between wants and needs.

1.1 The product has the functionality to set up a savings goal or "pot" for the child.
1.2 Different goals or "pots" can be set for different purposes e.g. bike, phone, presents.
1.3 Goals or "pots" can be personalised e.g. not just a pre-set purpose but named by the child.
1.4 Tools are available to help the child identify in advance how savings will grow through time to reach the goal.
1.5 The child can produce or see different views of the savings goals e.g. pictorial, tabular display, video.
1.6 The child will have an appropriate goal setting approach dependent on their age.
1.7 Age appropriate incentives are provided for setting-up the account.

2 Providing the customer with balance feedback

This sections looks at balance feedback that gives the child information on the progress she/he is making in a way that motivates.

2.1 Feedback is provided on how savings are building to reach a goal.

3 Parental involvement with the product

This section considers age appropriate features of the product that enables the parent to be involved in helping the child to develop financial understanding.

3.1 The parent/guardian is encouraged to be involved with help during set up of the account.
3.2 The parent/guardian is encouraged to have ongoing involvement e.g. in relation to wants and needs for younger users, setting up a goal or encouraging discussion on budgeting with older users.
3.3 The product contains features to involve parents in the transition from the account being in the name of the parent/guardian to the child (particularly from ages 7 and 11 i.e. when the account can be transferred to the child and when the child can have a current account).

4 Setting up payments

This section looks at how straightforward it is to set up a regular payment as a result of having set a goal.

4.1 The child or parent/guardian is prompted to set up payments as a result of the goal-setting.
4.2 There is an easy mechanism for setting up payments to the savings product.

5 Providing motivation and incentives to continue with or re-align a goal

This section looks at features that provide children with messages that encourage them to continue with or re-align goals and at financial incentives to encourage customers to continue with saving.

5.1 Encouragement is given to the child to keep on saving even if on-target.
5.2 Encouragement is given if the child falls behind to start again.
5.3 The child is encouraged to establish a new goal when a goal has been achieved.
5.4 Incentives are provided to the child, designed to provide commitment that is continuous.

6 Budgeting support

This section considers age appropriate budgeting in order to identify an amount that can be saved on a regular basis.

6.1 There is a tool that enables the child to identify wants/needs in order to calculate savings potential.
6.2 The budget tool is child-friendly and designed to build engagement.
6.3 The child receives advice from the age group above e.g. 15 to 18 year olds learning from the experience of 20 to 25 year olds.

7 Transition from child to adult savings account

This considers whether the transition is done in such a way as to encourage saving behaviour in adulthood.

7.1 On reaching adult age encouragements are giving to continue saving in an adult account.

8 Using age appropriate communication

This section considers how well through training and other expertise, age appropriate communication is delivered for age groups between 5 and 18 to support them in developing money management skills.

8.1 There is encouraging communication with the child in an age appropriate way, regardless of method e.g. webchat, phone, text.

Product Specification – Student Current Account

1 Keeping the student informed and in control – account balances and alerts

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

1.1 The balance can be obtained at any time by the student with a mobile app.
1.2 The product provides the student with the ability to trigger a message if the balance has reached a certain level and/or automatically sends a message on a low balance.
1.3 The product provides the customer with the ability to set a message if the account balance has reached a maximum level in addition to 1.2.

2 Enabling the student to keep track of income and expenditure

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

2.1 The product enables the student to track their overall income, including student loans and expenditure, i.e. the product provides a summary of the overall income received for a period and the overall expenditure during that period.
2.2 The product enables the student to produce or receive an income/expenditure time profile i.e. the customer can look at the change in income and expenditure over time using a monthly average to smooth for a term.
2.3 The product enables the student to produce different views of income and expenditure (e.g. graphs and tables).
2.4 The product highlights to the customer opportunities for regular savings.

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

This section looks at features that may help students to be on top of their expenditure by providing an in-depth understanding of where they spend their money. These would be provided by mobile app or online.

3.1 The product enables the student to review expenditure by category e.g. eating out, petrol, groceries, entertainment.
3.2 The product enables the student to review expenditure by category through time i.e.the student can look at how expenditure categories change over time.
3.3 The product enables the student to produce different views of the expenditure categories (e.g. graphs and tables).
3.4 The expenditure category functionality allows for comparison with others e.g. an average for other students spending habits for each category (perhaps with similar income levels).

4 Enabling the student to set a budget

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

4.1 The product enables the customer to set an overall budget.
4.2 The product enables the customer to set a budget by different categories e.g. dining out, petrol, groceries, entertainment.
4.3 The product tracks the actual expenditure against the set budget.
4.4 The product provides alerts with helpful prompts to amend budget plan if circumstances change.
4.5 The product gives incentives for achieving budget; these can be financial or non-financial.

5 Encouraging parental involvement

This section looks at features that help students to get support from parents when agreed.

5.1 The product encourages parents to provide advice on budgeting e.g. optional e-mail to parents to check budget is complete or pack encouraging a discussion with parents.

6 Providing short term deterrents to reduce expenditure

This section looks at features that are designed to help students to control their spending in a straightforward way.

6.1 The product enables the student to deactivate the debit card for a period of time e.g. when going out for the evening to reduce the likelihood of overspending.
6.2 The product can send a message if expenditure in a period (e.g. week) reaches a certain level determined by the student.
6.3 The product enables the student to restrict the maximum spend in a day/week without having to take action i.e. creates a deterrent for large expenditure.

7 Enabling the student to manage their debts

This section looks at features that help students to be in control of their debts and not to acquire greater debt than is necessary.

7.1 There is a check to ensure the student only has one product with an interest free overdraft limit.
7.2 The product enables students to set a plan to reduce debt, for example with income from temporary or part-time work.
7.3 The product gives incentives to meet plan.
7.4 The product notifies the student with a message if the balance is near the authorised credit limit.
7.5 The product notifies the student with a message if a debit transaction/s will take the balance over the authorised credit limit that day enabling the customer to take remedial action.
7.6 The product provides students with the opportunity for a temporary overdraft increase (maximum of 3 months) to cope with unforeseen expenses; the overdraft limit would be reduced following receipt of monies into the account.
7.7 The product will suggest the student takes independent advice from suitable agencies e.g. individual colleges and NASMA if he/she is experiencing financial difficulties and check to see that the advice is being sought.

8 Transition from student to mainstream account

This section looks at how the transition to a mainstream account occurs and how the student is prepared for this together with features to assist with the transition into work.

8.1 The product makes the student aware of the different terms of the new account, especially the overdraft arrangements, early enough to enable the student to make adjustments e.g. reduce the overdraft.
8.2 The product has flexibility for students that have not been able to find employment e.g. by postponing the charging of full interest. It could include suggestions to seek the benefits to which they are entitled.
8.3 The product provides features for graduates to provide financial management as they enter the workforce e.g. tailored budgeting, awareness of bills, how to reduce overdrafts and credit card balances and obtaining a good credit rating.

Product Specification – Mortgages

An application can include all mortgages being offered by the mortgage lender if they have the features and there are no issues relating to fairness factors. The term product relates to all features of the product including the advisory service by which it is sold. It will include mortgages sold through intermediaries if the features are available through that channel.

1 Assisting the customer to understand all expenditures involved in the house purchase/remortgage

This section considers features that help the customer understand all housing related expenses before and after the purchase of a new property, including unexpected costs. The purpose is to ensure that as far as possible the customer can manage both mortgage payments and other expenditure after a move.

1.1 The product provides the customer with a clear indication of the amount of all possible costs involved in the house purchase (arrangement, application, valuation, survey, legal, stamp duty, estate agent etc.).
1.2 The product encourages the customer to consider possible interest rate increases in a way that the customer is confident that they have planned for it (e.g. alternative income or a buffer on their income).
1.3 The product provides the customer with the ability to consider all post-purchase regular running costs. This is particularly important for first time buyers, in a way that encourages customers to check if they are unsure e.g. do not know the cost of utilities.
1.4 The product enables the customer to consider post-purchase costs (e.g. repairs, furniture, decorating, extensions etc.) in order to enable the customer to understand what they can afford at that point; this may be followed up with post-move communications or reminders.
1.5 The product encourages the customer of the need to have an emergency/contingency fund for unexpected expenditure? (This should be followed up with post-move communications or reminders).

2 Enabling the customer to make prepayments and underpayments

This section considers features that encourage the customer to prepay when they can afford to do so in order to reduce mortgage costs and vulnerability. It includes features that enable underpayment or payment holiday following a prepayment in order to assist with a change in circumstance.

2.1 The product enables the customer to make early payment of some of the mortgage without charge and customers are aware of the feature.
2.2 The product allows some underpayment or payment holiday as a result of having made prepayments and customers are aware of the feature.

3 Enabling the customer to consider insurance arrangements

This section includes features that encourage the customer to take out appropriate insurance at the same time as the life event of moving home and to periodically review insurance arrangements, particularly in relation to a life event.

3.1 The product encourages the customer to consider insurance needs in a way that leads to some customers seeking advice to ensure they have adequate protection in case of unexpected life events.
3.2 The product encourages the customer to periodically review insurance arrangements e.g. buildings, contents, life, illness, income protection, which could be linked to a change in circumstance.

4 Enabling the customer to receive support for a temporary change in circumstance or in financial difficulty at the earliest opportunity

This section includes features that support a customer that finds themselves facing a temporary change in circumstance or financial difficulty on a mortgage and likely to miss a payment or having missed a payment.

4.1 The product has ensured that the customer is regularly made aware that it is likely to be in their interest to contact the lender at the earliest opportunity, even prior to a payment being missed.
4.2 The customer in need of support is clear about the options available to them e.g. adding arrears to the mortgage balance, part-repayment, interest-only, term extension and payment holiday.
4.3 The customer is given sufficient time to consider the options, seek advice as necessary and take a decision. During this time the collection process is suspended within legal constraints.
4.4 The customer is referred to an independent agency (e.g. StepChange) where necessary in such a way that the customer does follow this up rather than postponing contact.
4.5 The product follows up with the customer to confirm that the proposed actions are being taken and provides support to the customer.

5 Encouraging customers to have a plan for repaying an interest only mortgage

This section includes features designed to ensure customers that have moved to an interest only mortgage have considered (prior to retirement) a method of repayment. The approach will have been developed with a view to ensuring understanding and future action by customers.

5.1 The product reminds the customer of the need to repay a mortgage in such a way that the customer understands the consequence of only paying interest i.e. that the mortgage is not reducing and the property will not become owned by them.

5.2 The product encourages the customer to commit to a voluntary plan for how to repay a mortgage that has become interest-only.

5.3 The product periodically (e.g. annually) reminds the customer of the plan and gives the opportunity to consider whether it is still appropriate in a way that some customers take action.

6 Encouraging customers to take action in relation to retirement

This section includes features designed to ensure customers who are approaching or after retirement are considering potential action.

6.1 The product has options or other features that will encourage the customer to consider making adjustment prior to or following retirement.

Appendix 4 – Survey Participants

	Current Account with overdraft	Current Account without overdraft	Credit Card	Personal Loan	Regular Savings	Childrens Savings	Student Current Account	Mortgage
AA			N	N	N			
Airdrie Savings Bank			N	N	N			
Al Rayan Bank		N						
Aldermore Bank		N			N			N
AMEX			Y					
ASDA Money			Y					
Bank of China	N		N	N	N		N	N
Bank of Ireland (UK)	N		N	N	N		N	N
Barclays Bank	Y	Y		Y	Y	N	Y	Y
Barclaycard			Y					
Capital One			Y					
CardOne		N						
Cashplus	N		N					
Citibank International	N				N			
Clydesdale	Y		N	Y	Y	N	N	Y
Co-operative Bank	N	N	Y	Y	N	N		N
Coventry Building Society	N				N			Y
Creation			Y	N				
Cumberland Building Society	N				N			N
Danske Bank Limited	N		N	N	N			N
Derbyshire Building Society				N	N			N
Everday Loans				N	N			
First Direct	Y		Y	Y	Y	N		Y
First Trust	N	N	N	N	N	N	N	N
GE Capital Bank Limited	N				N			
Go Henry					N	Y		
Harrods Bank	N							N
Hitachi Personal Finance				N				
HSBC Bank	Y		Y	Y	Y	Y	Y	N
ICICI Bank UK	N				N			
Investec Bank	N				N			N
Islamic Bank of Britain	N							
John Lewis			N					
Julian Hodge Bank Limited			N		N			
Leeds Building Society						Y		Y
Lloyds Banking Group	N	N	Y	Y	Y	Y	Y	Y
Loot		Y						
Marks & Spencer Financial Services	Y		N	Y	Y			
MBNA			N					
Media Ingenuity			N	N				N
Metro Bank	N		N	N	N	N		N
National Counties Building Society					N	N		N

Y=completed N=not completed

	Current Account with overdraft	Current Account without overdraft	Credit Card	Personal Loan	Regular Savings	Childrens Savings	Student Current Account	Mortgage
Nationwide	N		N	N	N		N	N
Newbury Building Society					Y			Y
Newcastle Building Society					N	N		
Neyber				Y				
Norton Finance				N				N
Norwich and Peterborough Building Society	N				N			N
Nottingham Building Society				N	N			N
OneSavings Bank				N	Y			N
Osper						Y		
Post Office Money		N	Y	N		N		Y
Principality Building Society					Y			Y
Progressive Credit Limited						N		N
Quidcycle				N				
RAC				N				
Ratesetter				Y	N			
Royal Bank of Scotland Group	Y		Y	Y	Y	Y	Y	Y
RCI Bank				N	Y			
Saffron Building Society					Y			N
SAGA			Y		N			
Sainsbury's Bank			N	N	N			
Save2Spend					N			
Santander UK	Y		Y	Y	Y	Y	Y	Y
Secure Trust Bank		N		N	N			
Shawbrook Bank	N			N	N			N
Skipton Building Society					N	N		N
State Bank of India	N	Y		N	N	Y		
Squirrel					Y			
Starling		N						
Tesco Bank	N	N	N	N	N			N
The Change Account		Y					N	
thinkmoney Ltd		Y						N
Thomas Cook					N			
Triodos Bank					N	N		
TSB	N		N	N	N	N	N	N
U	N	Y			N			
Vanquis Bank Limited			N					
Virgin Money	N		N		N	N		N
Wesleyan Bank Limited				N	N	N		N
West Bromwich Building Society					N	N		N
Yorkshire Building Societies					N	N		N
Zopa				Y				

Y=completed   N=not completed

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