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Invested: Preliminary Insights on the Financially Vulnerable Investor for Fintechs and Financial Services Institutions

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Acknowledgments

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BlackRock's
Emergency Savings Initiative

BlackRock announced a major commitment to help millions of people living on low- to moderate-incomes gain access to and increase usage of proven savings strategies and tools—ultimately helping them establish an important safety net. The size and scale of the savings problem requires the knowledge and expertise of established industry experts that are recognized leaders in savings research and interventions on an individual and corporate level. Led by their Social Impact team, BlackRock is partnering with innovative industry experts **Common Cents Lab**, Commonwealth, and the **Financial Health Network** to give the initiative a comprehensive and multi-layered approach to address the savings crisis.

*Additional information is available at **savingsproject.org**.*

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Commonwealth strengthens the financial opportunity and security of financially vulnerable people by discovering ideas, piloting solutions, and driving innovations to scale. For nearly two decades, Commonwealth has designed effective innovations, products, and policies enabling over a half a million people to accumulate more than $1 billion in savings. Commonwealth understands broad changes requires market players to act. That's why we collaborate with consumers, the financial services industry, employers, policy-makers and mission-driven organizations. The solutions we build are grounded in real life, based on our deep understanding of people who are financially vulnerable and how businesses can best serve them.

*Additional information is available at **buildcommonwealth.org** and follow us on Twitter **@buildcommwealth**.*

What would it take to support financially vulnerable people investing for the first time? In this report, we share preliminary findings from our consumer research on first-time, small-dollar investors. We highlight the barriers financially vulnerable investors face and opportunities for innovation in financial services and investment products to address their unique needs.

Executive Summary

In recent years, fintech innovation has propelled the rise of investing platforms and apps that enable greater autonomy and smaller-dollar investment opportunities than traditional investment and wealth management services. While these innovations have allowed more people to invest, financially vulnerable people often remain underserved.

The fintech and broader financial services industry now have a unique opportunity to address the wealth-building needs of this large population. Simultaneously, new technology enables fintechs and financial services firms to cost-effectively provide small-dollar investors access to financial tools that were once only accessible to those with higher incomes.

A growing body of research indicates that financial insecurity is an issue that affects millions of people. **Recent data** from the Federal Reserve states that 40 percent of Americans are unable to cover a $400 emergency from their savings and a **CareerBuilder survey** reports that 40 percent of Americans usually or always live paycheck-to-paycheck. A deeper understanding of the unique needs of financially vulnerable people enables both fintechs and the financial services industry to better serve the market as well as increase the potential success of these investors.

To that end, Commonwealth conducted consumer research to better understand what it would take for financially vulnerable people to invest—and how to support them when they do. Research participants had a household income of no more than $80K for households with two or more people and $60K for single households—nearly all participants did not consider themselves "financially secure." Our preliminary research demonstrated that while these individuals may be small-dollar investors, they are an untapped audience that quickly warm to the idea of investing. While many of the people who participated in our research initially felt that investing wasn't "for them," their minds quickly changed as they did their own research and became engaged in the investing process.

Ultimately, investing is an opportunity for financially vulnerable people to build wealth. Investing tools and platforms, when designed with these users' needs in mind, can serve this population by making investing more accessible. Our early insights highlight several opportunities to innovate and improve these tools to better support new small-dollar investors.

Preliminary Findings

Through surveys, interviews and close observations of a cohort of new investors, we uncovered a wide range of findings on financially vulnerable investors.

Financially vulnerable people's financial lives are different

"I feel like I should only start investing once I am financially secure and can pay all my bills."
Maria

Multiple research studies illustrate that financially vulnerable people have different financial lives, which impacts how they can invest. Many people in our research indicated they did not feel financially "stable" enough to invest, and that they believed they should wait until they were not living paycheck-to-paycheck, had accumulated savings or had paid off their debt prior to investing.

The financially vulnerable investors in our research had volatility in their income and expenses, which meant liquidity was extremely important to them, and a shorter time horizon for investing was preferred.

They also needed the ability to invest small amounts of money, and often preferred or required investment platforms that allowed them to invest without access to a bank account (i.e., on a prepaid card).

Financially vulnerable people's social context is different

Many of the people who participated in our research indicated they did not have role models for investing within their families or communities, and they often considered investing something for "other people." With a lack of people in their social circle investing, financially vulnerable people often do not have family members or friends who they can go to for questions or advice.

Meanwhile, financial institutions have historically not served the needs of financially vulnerable communities, leading many people in our research to indicate a lack of trust in these institutions.

Commonwealth's preliminary findings indicate that financially vulnerable people initially thought that investing was out of reach for them—and that they would need lots of money to invest. However, as they began to research investing platforms and apps on their own, their mindsets began to shift, and they began to believe that it would be possible for them to begin investing.

Financially vulnerable people need platforms that build investing skills, knowledge and confidence

Many participants indicated a desire for more knowledge, primarily to increase their feeling of being in control of their investments. Many had a negative association with investing, citing stories of past losses or market crashes.

Participants used the investment app or platform of their choice, ranging from simple apps that provided managed investments to platforms that allowed the investor to choose their own investments. All of the apps, even the most simple options, presented a large amount of industry jargon, which participants indicated they found confusing or intimidating.

In some cases, simple apps, which aimed to make investing easier by providing fewer choices or decision points, fell short of participants' desire for more information and learning along their investing journey.

Participants also often indicated dissatisfaction with the setup of the investing account or the user experience within their apps. They stated a desire for more guidance, less jargon, tailored and personalized information about their investment choices and performance, and live support options.

"In the beginning, it was so nerve-wracking and confusing. It's a very intimidating thing and not a typical thing in my community. You hear investing, you think rich people."
Adele

Conclusions & Future Research

This research provided preliminary insights into both the current barriers to and the opportunities for innovation in financial services and investment products to better serve financially vulnerable people. Commonwealth's research demonstrated the willingness of financially vulnerable people to try investing.

Top takeaways:

1 The experience of investing shifted the perspective of participants.

While none of our participants would have begun investing without seed money—we provided $200 to get them started—nearly all plan to continue investing, despite experiencing market fluctuations during the period of our research. After gaining this firsthand experience, participants came away with the understanding that even a turbulent market will not always cause the 100 percent loss that many feared.

2 Better understanding of the role investing could play in creating financial opportunities.

Participants shared debt and emergency savings as short-term priorities that have prevented them from feeling able to consider investing. Given that many people's financial framework is focused on debt and savings, we need to better understand how non-retirement investing fits in with their current reality and aspirations for their financial lives in the future.

"It's not easy, but it's not rocket science...with the right information, with the right guidance, I can do this!"

Kenneth

3 Investing tools can be designed to meet the needs of financially vulnerable people.

While fintech investment tools have made investing more accessible, none are designed to meet the unique needs of financially vulnerable people. Fees, banking requirements, high account minimums, jargon and the apps' complexity, along with other barriers, were major pain points for participants and made it challenging for them to choose, set up or operate their investment accounts.

"This isn't just for rich people. You can do it too, and as you feel more comfortable you can start to invest more money."

Dani

Next Steps

Commonwealth is now conducting further research and designing and prototyping solutions to address the problems and opportunities identified in this research. This year, we will test these solutions with fintech partners with the ultimate goal of expanding the offerings that are available in the market.

Join us as we work to build solutions that make financial services more accessible for financially vulnerable people. Contact **Melissa Gopnik** at **mgopnik@buildcommonwealth.org** for more information.

Appendix

Research Methods

Commonwealth conducted consumer research to capture people's perceptions, beliefs and experiences with investing. The research process began with a landscape scan of the current online investment apps and platforms, a survey of 164 people, and interviews with four recent investors, five non-investors, and 22 investment app users.

Next, we conducted 11 journey-mapping interviews and 16 "Fly on the Wall" interviews with both investors and non-investors. "Fly on the Wall" interviews consisted of in-person, individual interviews with non-investors in which Commonwealth asked them several questions about their thoughts on investing, and then gave them a laptop to research and choose an investment platform that they might use should they begin to invest. Researchers then sat in another room and observed the participants and their laptop screens before returning and asking participants questions about what they learned.

These discussions led to a 10-week experiment in which 11 financially vulnerable people were incentivized to invest for the first time using the online investing platform of their choice. Commonwealth tracked their experience through check-in calls and weekly surveys.

These new investors provided rich feedback on many aspects of the first-time investor experience, from the accessibility of the products to their own emotional journey through the process of investing.