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A Lighthouse in the Storm:

The Role of Institutions During COVID-19

By Dr. Daryl Collins and Antonia Agbeh

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Introduction

Throughout the Financial Resilience Project, the households in our study have continually shown resilience in the face of challenging circumstances, often using financial coping strategies, such as emergency savings, bill prioritization, and others, to get by. However, it is both impractical and unsustainable for them to manage the economic uncertainty of COVID-19 on their own. Many households are appreciative of efforts that institutions are undertaking and some have been using resources that institutions offer, but, in some cases, more support is desired.

To better understand what role institutions currently play in low- and moderate-income (LMI) households' financial lives—and what role they would like them to play—we surveyed the households participating in our study on their perceptions of government, employers, financial institutions, and credit card companies. We found that respondents perceived an institution's helpfulness based on the type of assistance provided during the crisis and the institution's relevance to households' current financial lives. The range of mixed responses we received underscores the often-complex relationships LMI households have with these institutions.

Ultimately, our analysis points to major opportunities for all of these institutions to improve their support of LMI households during the pandemic. As households struggle to navigate the unknown going into the end of 2020, and are left with fewer viable financial coping strategies, the support of institutions will be more critical than ever.

About the Financial Resilience Project

In June 2020, we launched the Financial Resilience Project to better understand how low- and moderate-income Americans are navigating the COVID-19 economic crisis and the resulting impact on their financial resilience. In our biweekly interviews, we follow how households are earning money, paying bills, using savings, and managing debt. This project uses an innovative tech-enabled methodology that allows us to gather and analyze our interviews quickly and efficiently and, as a result, capture and share rapid insights in near-real time.

The Households: We selected 56 households from 24 states across the continental United States with a median annual income of $50,500. Our diverse sample enables us to analyze the data by race, gender of respondent, traditional employment vs. gig or contract work, and household composition (with and without children).

Rapid Insights

Perceptions of Institutions Are Complex

We measured households' perceptions of government, employers, financial institutions, and credit card companies in two different ways. First, we asked respondents to provide a numerical rating from 1 to 5 of how helpful each institution has been during the COVID-19 crisis. Second, we asked them to explain their score, and using natural language processing (NLP), we assigned a sentiment score to their transcribed responses. In some cases, the numerical rating was very different from the sentiment score. Additional analysis revealed that these differences were often related to the type of assistance and the relevance of the institution to the financial life of the respondent.

Types of Support

In analyzing the responses to open-ended questions, we found that participants identified two types of assistance: material support and information assistance. Material support included financial benefits from the government, employers covering work-from-home expenses, and financial institutions waiving fees. Information assistance included instructions on how to apply for benefits from the government, transparency from employers about job stability, and opportunities for relief from financial institutions.

Participants often assessed institutions differently depending on the type of assistance that the respondent had in mind when answering the question. For example, on the one hand, many participants thought highly of the government because of the broad range of material benefits offered at the start of the COVID-19 crisis. On the other hand, they were critical of the government's delivery of information. This led to a discrepancy between the numerical ratings by respondents and the sentiment scores calculated based on their open responses.

Institution's Relevance

Perceptions also varied depending on how relevant the institution was to the respondents' current financial lives. Given the widespread impact of COVID-19, participants think governments should play a larger role and therefore had strong opinions about them. However, credit card companies were seen as less relevant and provoked more neutral reactions.

The NLP analysis revealed levels of complexity and rich detail, indicative of LMI households' complex relationships with these institutions, especially given the unique circumstances of COVID-19. People's spoken words are critical to understanding their lived experience and strongly inform our findings in this brief.

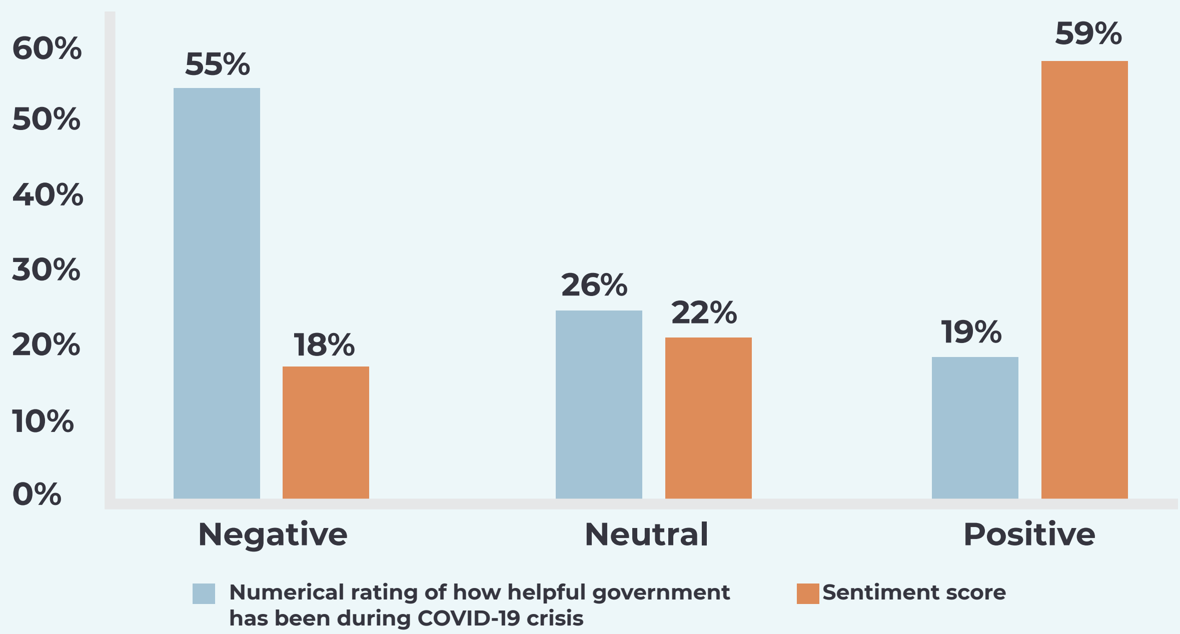
Perceptions of Government

Government was judged most severely in the numerical ratings but when we analyzed open-ended responses, respondents were generally more positive (see Chart 1). Open-ended responses indicate that respondents were grateful for material financial assistance—stimulus checks, supplemental unemployment benefits, federal loan forbearance, extra SNAP benefits—that governments had provided early on in the pandemic. However, they were critical of how governments communicated information and handled the crisis as a whole. Steve, a 24-year-old White man, summed it up: *"If I'm being completely honest, I have questions about how the federal government has handled this whole thing. But financially, at the very least, they seem to be doing all right."*

Respondents also indicated that they are expecting more from governments during this crisis than usual. When asked who is responsible for financial security during a time of crisis—either the individual, or government, employers or financial institutions—Maggie, a 40-year-old White woman with two children, said, *"Well, normally, I would say up to the individual but being the situation that the country is in right now, I would say it's kinda up to the government to provide support."*

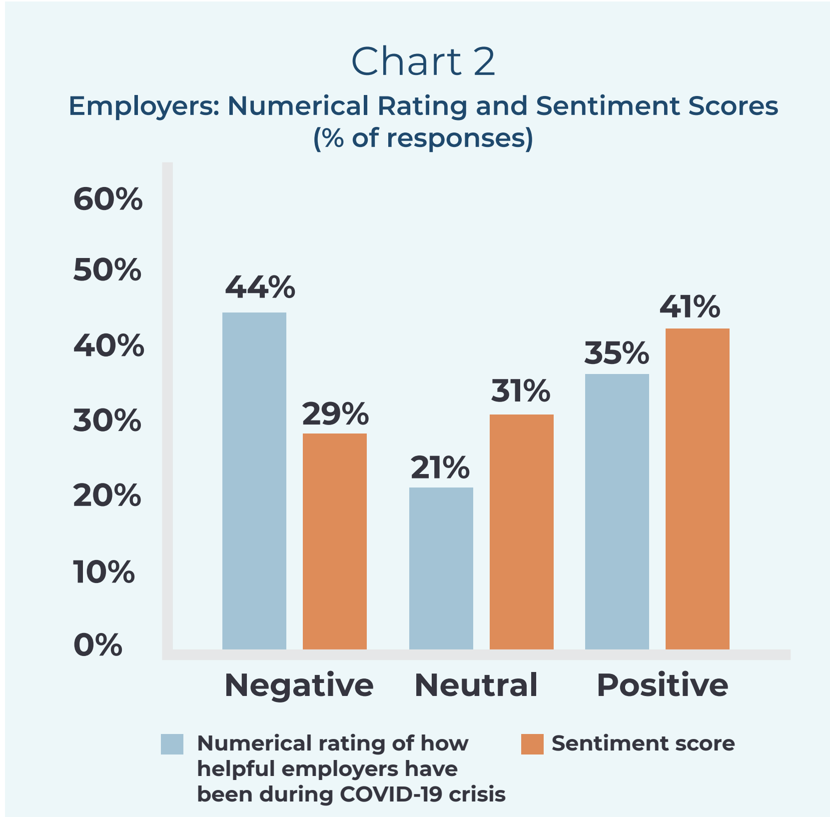
Chart 1

Government: Numerical Rating and Sentiment Scores (% of responses)



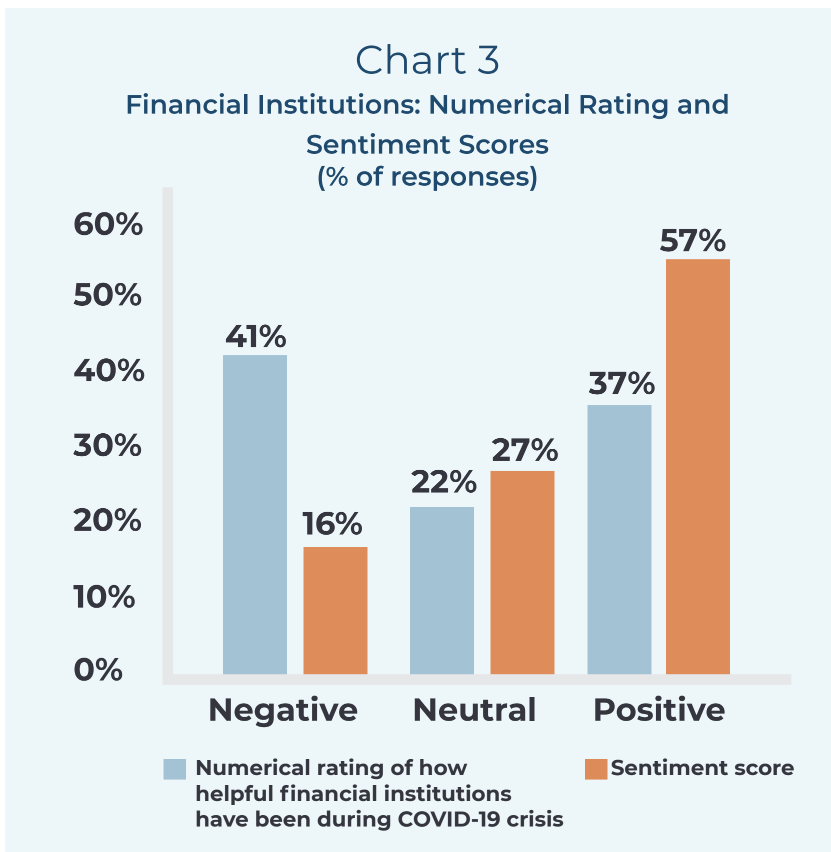
Perceptions of Employers

Employers garnered as much discussion from respondents as governments. Negative sentiment around employers was not driven by the unemployed, but by employed people who are anxious about keeping their jobs (Chart 2). Cathy, a 36-year-old White woman with two children, said about how employers can be helpful in the future: *"When I think of my husband's current employer, I think of just giving security and letting [us] know that no one's being laid off, but nothing like that is being said."*



Perceptions of Financial Institutions

Financial institutions received positive reviews (Chart 3). Respondents expressed a particular appreciation for credit unions because they provided products that served their needs. Manfred, a 37-year-old single White man, spoke glowingly of his credit union: *"They allow us to, basically, have unlimited amounts of accounts tied to our member number and that allows me to manage our money very easily into separate bills accounts and a separate emergency fund account."*

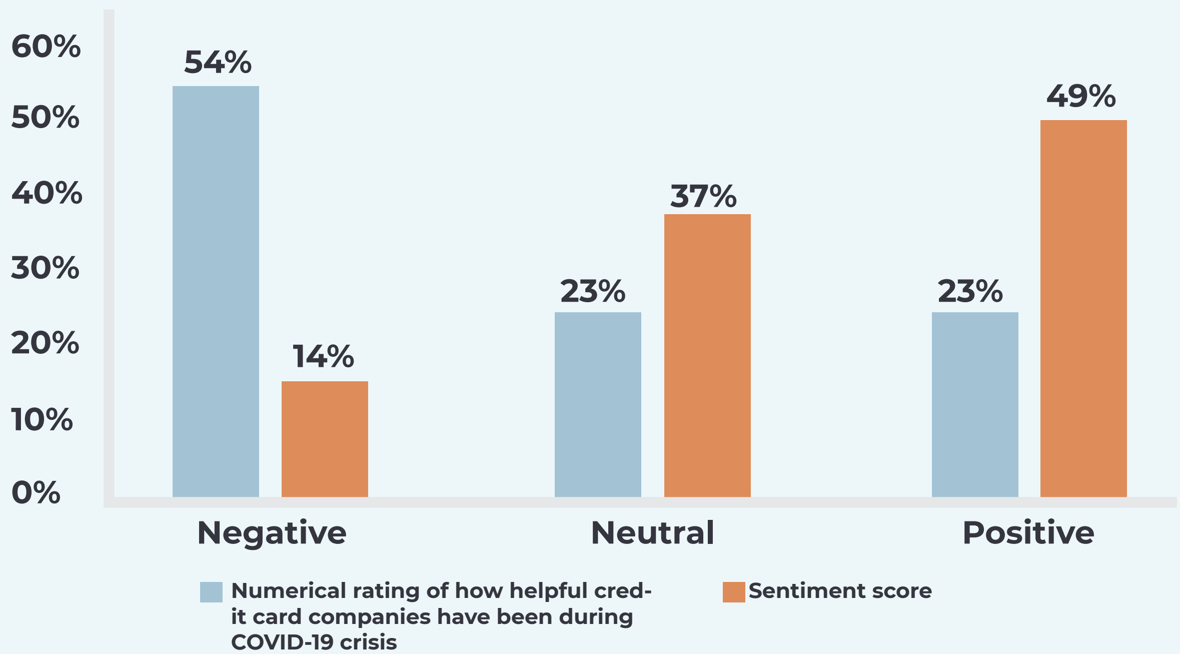


Perceptions of Credit Card Companies

37% of respondents provided a neutral sentiment score for credit card companies, which was much higher than for any other institution (Chart 4). Most respondents have, on average, two credit cards, but only a few have been increasing the balance on them as a financial coping strategy. Respondents said that while they knew what relief options credit card companies were offering, such offerings were not relevant to them. As Rachel, a 47-year-old Black woman with no children, said, *"They provide the option to postpone your payment without any interest. I haven't had to use it though."*

Chart 4

Credit Card Companies: Numerical Rating and Sentiment Scores (% of responses)



Recommendations for Resilience

Across all institutions, people want straightforward communication with an option to talk to someone directly. LMI households have complicated financial lives, and they need personalized support that they perceive as being best delivered by another human being. Commonwealth's findings reveal opportunities for each type of institution to provide their constituents with support and guidance to offset the impact of the COVID-19 crisis.

Employer Considerations

Employers have an opportunity to provide targeted material financial assistance; they also can potentially improve communication. Employers should consider redeploying benefit dollars to meet the current needs of their employees. For example, many employees can no longer take advantage of commuting benefits; resources that are usually spent on these benefits could be redeployed to pay for new needs, such as home office set-ups or increased child care expenses.

Respondents who are still employed reported that they want to find ways to give back to people in their community who have been impacted by COVID-19. Employers could increase their charitable donations programs or employee volunteer programs to respond to this new employee wish.

Respondents were clear in their desire for better communication from their employers. Improving communications about the security of employees' jobs and showing continued appreciation and recognition for employees' efforts during this crisis will serve to build goodwill and trust between employers and employees.

Financial Services Considerations

Financial institutions and fintechs have an opportunity to recognize the changing financial needs of their customers and develop new products to meet them. We have repeatedly seen in our research the disparate impact of the current crisis—some people who are still employed have more money and with less need to spend it, whereas others are running out of coping strategies and do not know how they will make it through the next month.

These different situations require different kinds of solutions. Financial institutions should use customer data to build services that meet customers' specific financial circumstances. For example, some people might have fewer expenses and might be able to start saving, but do not know what product to use, while others have less income and might want information on how to budget.

Credit Card Companies Considerations

Credit card companies have an opportunity to be perceived as more relevant in people's financial lives beyond the negative connotations of increasing their debt. They could preemptively allow all customers who have been using their cards more than usual during this crisis to skip a payment, including stopping interest accumulation. Providing this service without customers having to ask reduces stress on customers and can show that the company understands that these are unusual times. Another option would be for credit card companies to offer lower-interest installment loans to pay off balances for those customers whose balances have increased as a result of COVID-19.

Conclusion

Institutions have long played an important role in the financial lives of LMI households, and during the current financial crisis, these households have specific interpretations of institutions' impact and influence. The households in our study expressed a range of perceptions regarding the roles of government, employers, financial institutions, and credit card companies based partially on the type of assistance and institution's relevance to their financial lives.

Our research reveals significant opportunities for each of these institutions to improve their support of LMI households during the COVID-19 crisis. By providing better communication, services, options, and products, institutions can build loyalty, engagement, and ultimately resilience among their constituents, customers, employees and communities.

BlackRock's Emergency Savings Initiative

This report is made possible thanks to the generous support of BlackRock's Emergency Savings Initiative. BlackRock has announced a $50 million philanthropic commitment to help people living on low- to moderate income gain access to and increase usage of proven savings strategies and tools to help them establish an important safety net. Led by its Social Impact team, BlackRock, along with nonprofit experts known for their innovative approach to consumer finance, Commonwealth, and Common Cents Lab, and Financial Health Network (formerly CFSI) are working to address the savings crisis and fuel the future of savings innovation.

For more information on this brief, please contact Melissa Gopnik at info@buildcommonwealth.org

Follow the Financial Resilience Project online for our latest insights, stories from the households we are following, and more:

www.buildcommonwealth.org/frp