

Addressing the Emergency Savings Challenge

An emergency fund is a critical buffer against financial crises. But according to The Federal Reserve Bank of Boston, 44% of Americans don't have even \$400 saved for unexpected expenses. Financial institutions' savings product offerings may not have evolved enough over time to meet this challenge and may not reflect the needs of consumers struggling to save money.

In June 2017, Commonwealth and The Federal Reserve Bank of Boston ("the Boston Fed") hosted a convening, "The Emergency Savings Innovation Challenge," to invite banks, credit unions and key regulators in the region to discuss the financial insecurity crisis and approaches to addressing this \$400 savings challenge in their communities. The event sparked an open conversation about this challenge, the internal and external barriers financial institutions face as they seek to address it, and a variety of practical solutions. Most importantly, participants identified concrete next steps they will take toward bringing savings innovation to their institutions, including: 1) learning more about their customer base and its savings needs, 2) exploring prize-linked savings as a promising savings solution, and 3) continuing to work together on this \$400 emergency savings challenge.

Key insights and discussion from the convening are highlighted below.

The Boston Fed and Commonwealth described the \$400 emergency savings challenge in New England

The convening began with an interactive discussion about the scope of the \$400 savings challenge and how it manifests in New England's communities. Brian Clarke of the Boston Fed shared statistics from the Survey of Housed Economic Decision-Making (SHED) survey. In addition to nearly half the country lacking \$400 in emergency savings, 23% of adults had to pay a major unexpected out-of-pocket medical expense in the prior year, and a quarter are not able to pay their monthly bills in full. In the face of this growing savings crises, Clarke noted that while several financial institutions in the room offered holiday club accounts, which were products designed as responsive to customer needs, that there hadn't been a major, new, consumer-centric product offered since those holiday club accounts were introduced decades ago.

The financial institutions in the room were generally aware of the challenge. In a pre-event survey, two-thirds of the respondents reported that they were actively discussing the lack of small dollar savings in their institution. One participant who read about it in a recent Atlantic article shared that her institution's "immediate response was to set up a \$500 emergency loan for our employees"—a proactive step, but notably not one designed to help people build up savings in advance of an unexpected financial shock. Other participants commented on the prevalence of high-cost, short-term loan providers in their communities and expressed a desire to help their customers reduce reliance on these products. As one participant put it, "We need to be a resource, we're here to help [customers] learn and save."

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Participants highlighted the barriers that institutions face to addressing the challenge

While there is widespread recognition of the \$400 challenge, participants acknowledged that many institutions are not actively exploring new ways to help customers build emergency savings. Participants voiced a range of challenges to savings innovation in their own institutions, including:

- A persistent concern that those customers who do not already have \$400 in savings cannot save or do not want to save
- Institutional priorities focused on wealthier customers
- Uncertainty about what strategies and products are truly effective in driving savings
- Emphasis on promoting higher-margin lending products and delivering return on investment in the short-term





Participants also discussed the challenge of not knowing where to find solutions. With the growth of financial technology (fintech) companies, core processors continually pitching products and services, and the daily needs and priorities of the institution, product managers face a lot of competition for their attention. And for smaller financial institutions, offering a new product is often a significant investment. As one participant explained, “We did a product a couple years ago in the height of the payday lending situation to help people save for a rainy day. We’re a small bank, we all wear multiple hats. It took us 6-9 months to put a product together.”

A panel of experts shared successful savings products available in the marketplace

To move beyond some of these barriers and spur imaginative solutions, a panel of speakers highlighted existing products that are using prizes and technology to successfully drive savings and financial security.

WINcentive Savings and the Power of Partnerships

WINcentive Savings is a prize-linked savings (PLS) account offered by the Minnesota Credit Union Network (MnCUN). Ryan Smith, MnCUN’s Director of Political Advocacy, shared insights from the design, launch, and first year of WINcentive, which was developed in partnership with Commonwealth. WINcentive is a vended PLS solution that serves multiple credit union institutions by streamlining administration, account procedures, and marketing. Credit unions can partner with MnCUN to quickly and easily offer an exciting and unique savings opportunity to members. WINcentive has also generated powerful benefits for credit unions: 20% of account holders said they joined their credit union to participate in WINcentive, and 80% said that WINcentive makes them more excited about their credit union. In its first year, WINcentive generated over \$2.8 million in savings by more than 4,000 account holders.

Walmart MoneyCard’s Prize Savings: Driving Volume and Seeing Results

Panelist Sam Neal, representing Business Intelligence and Planning with Walmart Services, shared how Walmart is using prizes to drive digital engagement and savings. The Walmart MoneyCard is a general purpose reloadable prepaid card backed by Green Dot Bank. In August 2016 and with the support of Commonwealth, Walmart launched Prize Savings, a sweepstakes-based incentive attached to the Vault, the MoneyCard’s savings feature. Each dollar of average daily balance in a cardholder’s Vault earns an entry into monthly drawings for one of 499 prizes of \$25 or one \$1,000 grand prize. Prize Savings is driving increased use of the Vault and generating compelling business outcomes for Walmart. In its successful first year, Prize Savings had 175,000 users and \$355 million moved through the Vault. In May 2017, the Atlantic highlighted Walmart Prize Savings for its compelling results and shared how this effort transformed non-savers to savers in a very unique way.

PayPerks: Fintech and Improving the Customer Experience

Jake Peters, co-founder of PayPerks, presented a range of financial technology (fintech) solutions—including SaveUp, LongGame, Qapital, and SavingsQuest—that are driving savings and engagement. Participants acknowledged that fintechs create opportunities for both competition and collaboration. Technology can enable banks and credit unions to improve their customers’ experiences in critical ways, including by making financial actions fun and personalized. Fintech can also help banks and credit unions leverage user data and analytics to better understand consumers and to test and learn over time. Peters spoke about his company, PayPerks, a rewards platform that uses sweepstakes-based incentives to digitally engage consumers and optimize behavior. PayPerks awards points for accessing financial education content and for certain target behaviors, improving financial capability for customers and increasing profitability for institutions. For example, a module that teaches customers how to use online banking can drive down costs related to customer service for checking balances through a call center.



Attendees also shared some strategies they are already using at their own institutions to engage customers in saving. One community bank shared how a long-term approach allowed them to deepen relationships and ultimately realize increased profits from their initial investments in a community. Another initiative tracked a group of third graders after giving them a \$5 initial deposit in 2008. Ten years later, the bank saw a 60% increase in the services per household, 80% increase in the deposit balances, and 60% increase in loan balances among these households. Overall, this bank invests about half a million dollars a year in community programs, leading to over \$12 million in new business over the past ten years. “Over time, it does pay. It’s not just a good thing to do for the community,” a bank representative said. “The deeper relationship does happen and is profitable for the bank.”



These examples enabled participants to envision practical solutions that can help institutions offer savings products that meet the needs of consumers struggling to save. With careful attention to design, savings products can be engaging and profitable while helping customers build financial security.

Event participants committed to take steps to bring savings innovation to their institutions

With these practical solutions in mind, the convening ended with a call to action from Jeffery Fuhrer, Executive Vice President and Senior Policy Advisor at the Boston Fed, for participants to bring the insights of the day back to their institutions. Participants committed to taking concrete steps to help customers build emergency savings, including:

- Continuing to work together to find ways to tackle the \$400 challenge
- Learning more about their customer base and its savings needs
- Exploring partnerships to offer existing solutions, such as prize-linked savings

As one participant noted, neither the customers’ needs for savings products nor the challenges associated with offering a new product or program are going away. It was clear the individuals in the room were committed to continuing to identify ways to better serve people in their communities who may be struggling financially.

Looking ahead

The successes of WINcentive, Walmart Prize Savings, and PayPerks have established a strong foundation for savings innovations that are designed to better meet consumers’ needs. Banks and credit unions must be leaders in addressing the savings crisis by taking advantage of solutions that help consumers build an emergency savings fund, which is a critical buffer against financial crises. Participants in the June convening identified opportunities and action steps to address this challenge in their communities. Moving forward, Commonwealth and the Boston Federal Reserve will continue to convene stakeholders to discuss the \$400 savings challenge, explore partnerships that facilitate addressing this challenge, and foster thinking to develop further solutions.

