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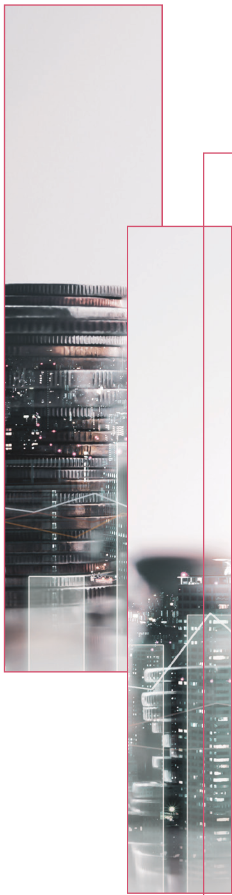

# ***Financial well-being*** and the rise of ***empathy*** in ***sustainable banking***

A Mindtree Whitepaper

*Welcome to possible*

# Introduction

***'Financial well-being'*** is an extremely precious aspect of life. It has received unparalleled attention in this unprecedented time of the pandemic and **empathy is the precursor to financial well-being**.

Since the outset of this pandemic, mankind has realized that nothing is more precious than well-being. Staying physically and mentally fit is not just a choice, but a priority. Through helping customers in their well-being organizations can uplift their social image and this improves their **ESG (Environmental, Social and Governance) score.** Contributing towards customers' financial well-being will create a differentiating factor for banks and financial institutions and improve **NPS (Net Promoter Score)**.

Neuroscience has proven how one reacts differently under **stress, anxiety, and depression**. More importantly, neural circuits in our brain get altered if these conditions persist for a long time and become chronic. Financial well-being is closely related to physical and mental health. When these facets of well-being are placed in the right coordinates, it can form an everlasting circle of happiness. Banks and financial institution can play a major role in this.

Finance is often an area of stress. **41% of US adults**[1] **and 47% of UK adults**[2] **lack confidence when taking financial decisions. 77% of British residents** are facing stress while managing their finances.[3] In fact, the majority of the population in the Middle East, Asia Pacific and African countries have subpar financial conditions. In the Middle East, the top **10% of people account for 64% of wealth**.[4] Wealth inequality cuts across all the geographies resulting in vulnerabilities in large segments of population with regard to maintaining financial well-being.

Financial well-being is often subjective unless drilled down to a granular level and compared at the right scale. Financial well-being is the outcome of **financial habits**. Habits are developed by individual **personality traits** consciously or unconsciously. Over time, these financial habits formulate **financial behaviors.** These financial behaviors are evident from day-to-day transactions and account history. These transactions are sheer numbers and may not make sense much if analyzed in silos. However, with careful consideration and all-inclusiveness, these numbers can unearth evidence that reveals insightful stories. These stories build an individual's **financial identify**, indicating whether someone is financially distressed, fit, or free.

Banks and financial institutions (FI) can leverage evidence from financial behavior as critical leads to proactively help customers when they are in need. Nothing is better than engaging customers through helping them. This not only creates an engaging experience but also builds an everlasting connection. This can be achieved through embracing empathy at every touch point of customer connect.
Empathy shifts the mindset of banks or FIs from **'I know how you feel' to 'I feel you'**. However, customer expectations have risen and proactive rather than reactive action is expected from services today. Thus, banks or FIs who are able to adopt compassion in their approach to engaging customers are highly valued. Being compassionate is easier said than done as it signifies **'I want to help you'**. Helping others requires passion and assertiveness to build awareness and confidence in the customer, rather than being forceful. Empathy leads to compassion, and this is a significant differentiator in the banking and financial industry.

Often, customers tend to shy away from sharing their financial status with banks and FIs. In fact, **four out of five individuals prefer to stay away from financial status related conversations** and hesitate to share such details with others. Although financial well-being can be measured scientifically it is quite tricky. Detecting financial distress accurately and engaging customers in this sensitive topic becomes challenging for banks and FIs. Thankfully, technology can play a vital role in detecting and engaging customers proactively who are in financial distress. **Artificial Intelligence and Machine Learning (AI/ML)** can build a universe of empathy, compassion, and happiness. This goes beyond engaging customers digitally; it will also enable employees to be empathetic and react appropriately based on a specific situation. The time is not far when customers will experience the universal virtual world of the metaverse filled with empathy and compassion. Then the path to financial well-being will be more interactive, gamified, and available at their fingertips.

# Redefining financial well-being

**More than 24% of customers stopped visiting branches completely** and went digital or opted for branchless banking. **44% of Millennials and Gen-Z customers have enrolled in online or mobile banking for the first time** and for these customers differentiating value from their bank is the key reason to remain with the bank.[5]

In current scenario of an unpredictable and disruptive world, it's extremely important to redefine and uncover the true meaning of financial well-being beyond the literal sense. Financial well-being is a state of mind where financial stress and anxiety is manageable, and an individual is financially in a comfort zone. It is the state in which an individual is relaxed about repaying the amount of debt, able to manage household expenses at ease, and capable of saving a certain portion of disposable income without stretching their monthly budget too much. Finally, this is the state in which one gets a sense of happiness and mental peace in life.

# Demystify financial well-being

In principle, financial well-being depends on various factors such as household income, savings, expenses, and repayment towards outstanding debt. Financial well-being is directly correlated to gross monthly savings of a household. However, gross savings of a household depend entirely on the disposable income, household expenditure and debt outpays. This is a constant and repetitive process. Hence, gross savings rate is an important performance indicator for an individual as this denotes a consistent and sincere effort to build financial well-being. This cannot be built overnight; thus, a continuous effort is required to ensure financial well-being that is sustainable and helps an individual to achieve overall well-being.

***Financial well-being = ʃ (Income, Savings, Expenses, Debt)***

## Savings as a tailwind and cash outflow as a headwind

An increase in gross savings helps an individual move towards financial well-being. Conversely, an individual with higher expenses and debt outpays is often dragged into financial distress. This is the state which impacts an individual resulting in anxiety and stress.

Reducing expenses and lowering debt burden after an inflection point leads to an improvement in savings and in turn financial well-being.

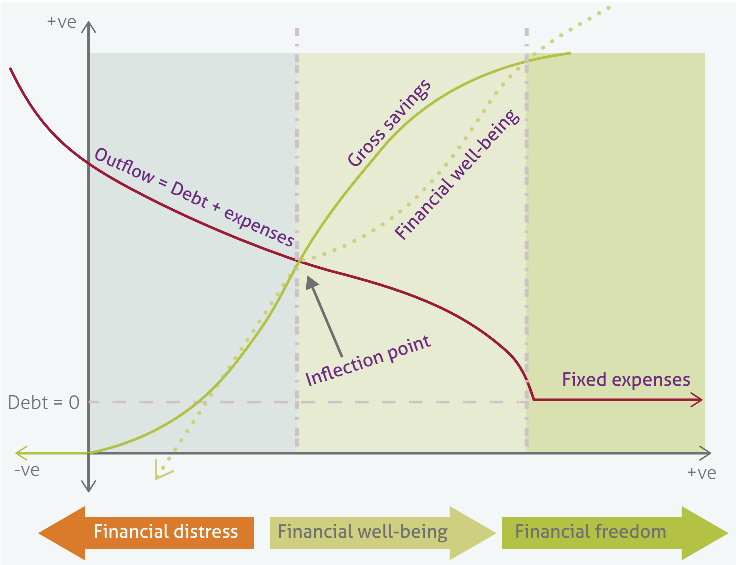

*Figure 1: Financial well-being – A factor of savings and outflow*

As shown in Figure 1, when cash outflow is high and savings are low, financial well-being drops significantly. On the other hand, financial well-being improves significantly when debt and expenses are brought under control and savings gradually increase. At the inflection point, financial well-being takes a concave turn upward and takes a steep climb upward as the financial well-being sustains. This is the state when an individual enjoys financial well-being and a peaceful mind with reduced stress.

***Gross savings = Gross disposable income – Debt outpays – Household expenditure***

$$\textbf{Gross savings rate} = \frac{\textbf{Gross savings}}{\textbf{Gross disposable income}}$$

## It is a state of mind

Financial well-being is a state of mind. When an individual enjoys a state of mind with reduced stress or anxiety and it sustains over a longer period, a neuroplastic change is induced in the brain, which helps one to live a happier and healthier life. That is mental well-being derived from financial and physical well-being. The three pillars of well-being are tightly dependent on each other. Well-balanced physical wellness along with financial well-being results in a healthy state of mind.

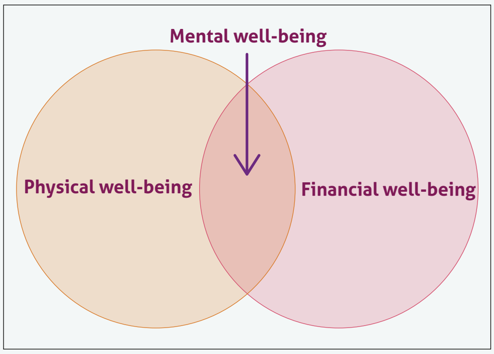


*Figure 2: Three pillars of well-being*

## It is not financial freedom

Although financial well-being is the pathway to financial freedom, there is no reason to consider financial well-being as financial freedom. Most households do have debt and day-to-day expenses which impact their gross savings. Careful management of finance is important to ensure that an individual is able to repay all debt over a period of time and enjoy a debt free life while having enough disposable income to manage steady savings and recurring expenses. Financial freedom also means an individual has sufficient savings or investments to manage their post-retirement lifestyle without getting into further debt. Financial well-being is more focused on financial wellness status. Hence, with the right course of action this can be improved in the short-term. However, maintaining a state of financial well-being is of the utmost importance and yields better results for overall mental well-being.

# Why is financial well-being so crucial for banks?

Customers often switch to neo banks or digital banks when their primary bank keeps ignoring their concerns and customers remain unheard. They also move when they are charged hefty fees and charges, or the bank does not provide value-added services because of customer's lower credit score, etc. Customers need attention in the digital banking world. Therefore, proactive personalized services create a differentiating experience. This segment of customers who are operating completely digitally need to be engaged with their banks and financial institutions in an innovative way for sustainable banking relationships. So, the clear challenge facing banks and financial institutions is to engage customers remotely in the digital world.

**Losing personal connect:** Most banks in the US and UK have reported more than **90% of their transactions are completed over mobile or other digital channels** since customers have been facing pandemic restrictions. There has been incredible leap in online adoption across all geographies. The Tropical Financial Credit Union experienced a **91% increase in digital account openings in 2020**.[6] These shifts left banks and financial institutions with limited opportunities to engage and establish connections.

**Steep competition:** A large number of fintechs, digital banks, challenger banks, and neo banks in the US such as Chime, Current, and Varo gained market share at the fastest rate ever witnessed. Not just because of their seamless and faster customer experience, but also because of their personalized services and ability to engage customers. The majority of US millennials have their **deposit account with digital banks increased from 15% to 20% in just a few months of the pandemic.** Customers were able to easily get the stimulus fund through their digital bank account. Thus, banks who are unable to create an expected experience will face higher attrition.

**Struggle to engage customers:** Despite having superior customer experience through mobile, web, and other channels most banks and FIs are struggling in engaging customers. Although they are focusing on modernizing technology and platforms, customer engagement remains a challenging space for them. Some of them who have considered improving engaging have made a limited effort, typically chatbots and contact centers. **The brick and mortar banks will continue to encounter more customer dissatisfaction and customer churn for better services.**

# Financial well-being as a customer centric framework

**Empathy is the new currency** and **heart of financial well-being.** Empathy works like magic when connecting with customers, building relationships, and carrying conversations. **Empathy is the healing touch** that creates an engaging experience. This helps give customers comfort and even builds a confidence that **'I know you'** and **'I can feel you'**. By leveraging empathy as a tool, banks and financial institutions can establish a customer-centric service to solve the equation of financial well-being in a four-step framework. This impacts ESG sustainability and contributes towards social factors such as wealth inequality, mental health, financial health, and the provision of unbiased help. This results in enhanced ESG score and Net Promoter Score (NPS) for financial organizations.

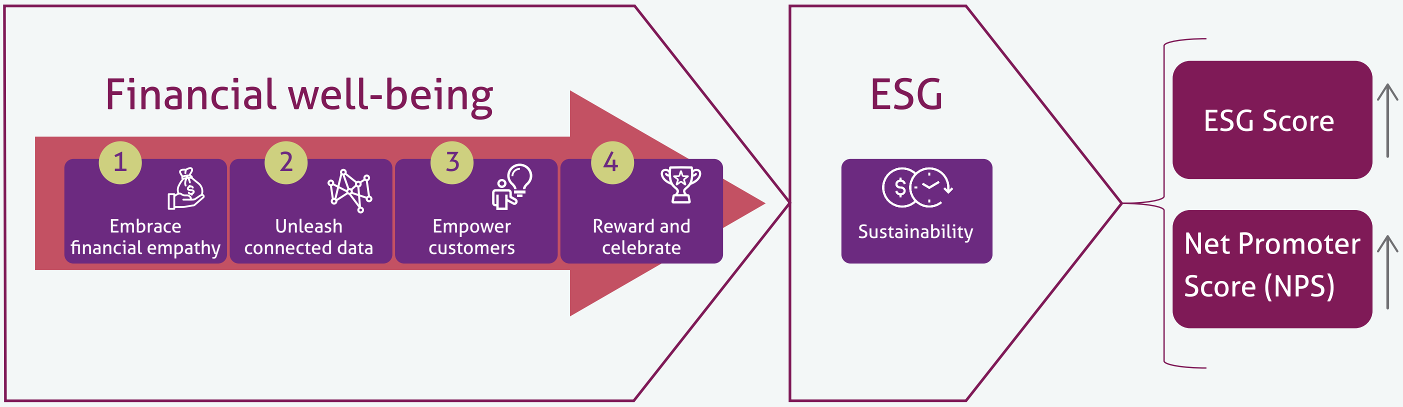


*Figure 3: Framework for customer-centric, sustainable financial well-being*

This framework is crucial for banks and financial institutions to proactively help their customers in recovering from financial crisis where **empathy is the healing agent.** This framework also applies for all existing customers in order to **improve their financial behavior and maintain their financial well-being.** Customers seek guidance from their bank in taking the right action to course correct any financial issue. Hence, it is imperative for banks to adopt a framework to induce empathy in their services and help customers in improving their financial well-being. This will help banks to create a sustainable business and will make them more resilient for future.

## Embrace financial empathy

**Thrive with purpose:** First and foremost, banks and financial institutions need align to a 'fundamental mindset shift' from **service-centric to customer-centric.** The purpose of helping customers should take precedence. The social cause is taking a front seat across global banks which is evident through the surge in **ESG (Environmental, Social, and Governance) factors**. Banks should also look into repositioning with a purpose to help their customers.

**Re-establish connection:** Through a proactive outreach banks can re-establish the missing link and start re-connecting with customers on the basis of empathy and offer help proactively. Re-positioning socially as an organization ready to help customers in recovering from their financial distress positions bank not just a preferred banking partner but establishes a long-lasting relationship.

**Hyper-personalization:** Banks need to curate every touch point between the bank and customer with hyper-personalized moments. This should start with relevant and contextual communication and conversation with customers right on time through their preferred channel. Assimilating data and creating personalization using **Artificial Intelligence and Machine Learning** unfolds new possibilities.

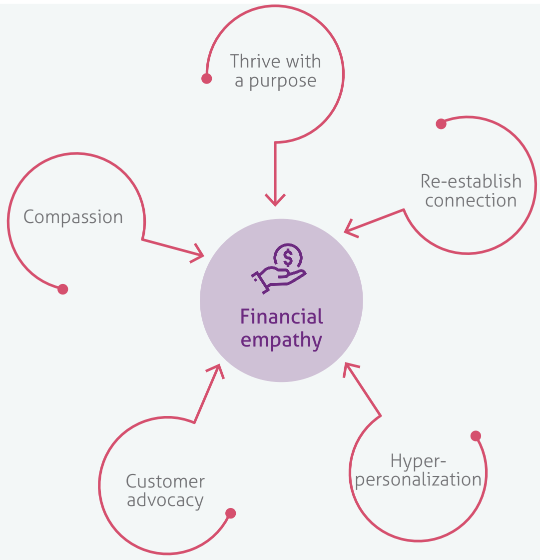


*Figure 4: Key factors in achieving financial well-being*

**Customer advocacy:** Empathy turns a service from business-centric to human-centric. With empathy, a financial coach can boost confidence and inspire and influence an individual to take the next step to help them improve their financial status. The human touch and empathy put the **humanity back in banking**. This enables banks to focus on what is deemed to be driving customers towards financial well-being.

***Compassion:*** *The journey of financial well-being starts with empathy but doesn't end there. Compassion takes the journey to the next level with an urge to help. Extending help to customers in need based on their financial situation brings a complete difference to customers. Compassion in financial industry can open up whole new possibility as this will build a human centric connection and will help to promote and position the right product and services to the right customer.*

## Unleash the power of connected data

This is a framework to identify the financial behavior of an individual that leads to knowing their financial habits and in turn those pieces of evidence that are impacting them in their financial journey. Financial evidence creates a financial identity which indicates whether someone is financially healthy or in financial distress.

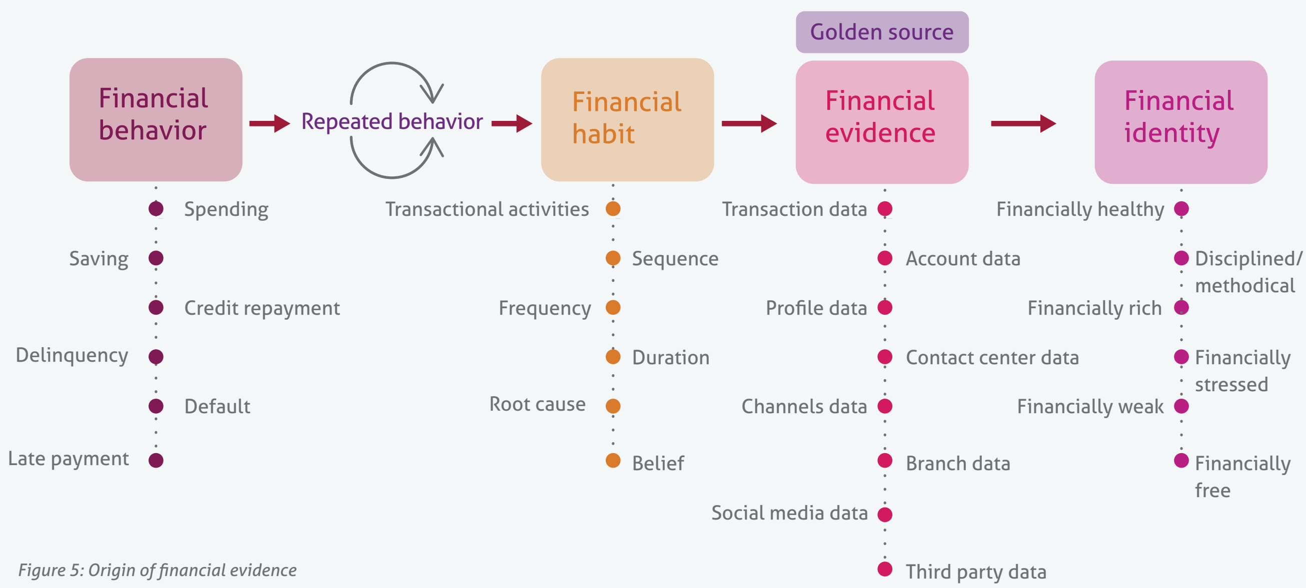


*Figure 5: Origin of financial evidence*

**Classify the signals:** Consciously or unconsciously, every customer leaves a significant number of financial footprints from his transactions and touch points of every interaction with banks and financial institutions. Financial behavior can be identified by observing a customer over a period of time. Financial habit is identified through observing several time-stamped and repeated patterns of behavior.
Thus, **financial behavior leads to financial habits.** This generates useful signals for banks and financial institutions. If the signals are detected at the **inflection point (Figure 1)**, it helps spot the time when a customer needs help. This can be achieved through predictive analytics using Machine Learning.

**Evidence to confidence:** As a bank or financial institution, it is critical to analyze the financial traits from the collective financial evidence. Such evidence often needs to be uncovered through connected data. Data from financial transactions, profile data, account data, and so on. Data helps to uncover the story behind the customer's financial behavior and habits. Evidence of financial well-being is a factor of financial habits and in turn these habits are identified through patterns in savings, expenses, and debt repayment. When such evidence is provided to the customer that is a 'wow' moment for the customer. This undoubtedly builds their confidence and trust in the bank.

***Evidence of financial well-being = ∫(Financial habits)= ∫(Savings, Expenses, Debt repayment)***

**Understanding customers:** Banks can join the broken links and build stories through connecting data from different sources. Even these days it is also possible through connected accounts and sharing data from other banks with customer consent. This opens up a whole new world of possibilities and market opportunities for banks to cross-sell and generate new revenue streams. For the customer, such stories can reveal hidden behaviors and habits to them. This helps to map empathy to the right context supported using the right data.

## Empower customers

A key to financial well-being is to empower customers to get insights from their own financial habits. This creates **self-awareness** and **self-realization**. This further empowers customers with an ability to take action and course correct their financial issues and it is an inevitable step towards **self-satisfaction**. Empowering customers ensures that financial empathy results in financial well-being through a **self-healing environment**.

## Reward and celebrate

It's important to share a sense of celebration through a reward when a small step is taken towards financial well-being. This gives the customer a **feeling of belonging and sharing the joy and happiness** in every achievement of their financial wellness journey.

# Growing emphasis on financial well-being

Over the last couple of years, customers have developed a new set of financial behaviors with remote banking, online payments, and more. To tap this rapidly changing landscape, early movers from the industry have started aligning their offerings to help customers and meet their dire need.

- Detroit, Michigan based Ally Financial, an online only bank is helping customers by waving overdraft fees of $25 completely.[7]
- San Antonio-based Fortune 500 financial organization USAA is helping customers with advice and guidance to take informed decisions on their financial journey.[8]
- American Express has teamed up with Nova Credit to enable more newcomers to the US to use their home-country credit history to apply for its cards.[9]
- MoneyBrilliant app has been acquired by Australian bank Westpac for providing cash forecasting and budgeting capability to their customers.[10]
- Ohio-based Huntington Bank is enabling customers in their budgeting and personalized savings goals through their mobile platform.[11]
- U.S. Bank has come up with a prepaid wages card for direct payroll deposit and early access to cash.[12]
- Pennsylvania based PNC Financial Services Group is helping customers with alerts to avoid overdraft charges.[13]

# The path forward to financial well-being

A black swan event like COVID-19 pandemic or a sudden invasion resulting in lasting war are times that test **financial resiliency**. This applies to both individuals and businesses. A state of financial well-being most likely helps an individual or a small to mid-size business to sail through these tough times.

Banks and financial institutions should include customers' financial well-being as part of their **ESG propaganda**. They need to **shift their mindset** towards **human-centric** service from customer-centric and prioritize customer financial wellness. They should **imbibe empathy in their culture and redefine customer service with compassion**. A proactive data-driven strategy is essential for banks to beat rising competition in the customer experience and customer engagement space. Financial institutions need innovative strategies in order to drive customer well-being as part of overall sustainability with a focus that includes factors such as wealth inequality, health, diversity, etc. UBS announced tying top executives' compensation to sustainability.[1] It will be a quick win for banks and financial institutions to focus on customer well-being and improve bank's ESG performance through sustainable banking.

Adoption of **advanced analytics, open banking, AI/ML, and cloud-based data strategy** will continue to grow, enabling banks and financial institutes to provide their customers with better financial insights at their fingertips. Banks and financial institutions will keep **enriching personalization and empowering customers**. There is a unique opportunity to engage customers and create a differentiating customer experience that will enhance the revenue steam for banks and financial institutions through cross-selling of ESG products. **Empathy-based customer advocacy** combined with a **human-centric experience** is the future of sustainable banking. In the virtual world this is already creating a huge impact with the brand new metaverse where banks and financial institutions are embracing digital assets with scaled decentralized finance.

**Future banks and financial institutions will be more empathic** and will provide customers more peace of mind in managing their financials in smart and seamless manner. They will focus more on **sustainability and erasing inequality through an unbiased and ethical approach**. Sustainability and financial well-being will craft a stronger bond with customers based on trust and confidence. Through enhancing wealth for customers, freeing up extra cash, and reducing debt burden, banks will not just build a healthy financial lifestyle but also will develop a long-lasting relationship.

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## About Mindtree

Mindtree [NSE: MINDTREE] is a global technology consulting and services company that enables enterprises across industries to drive superior competitive advantage, customer experiences and business outcomes by harnessing digital and cloud technologies. A digital transformation partner to more than 260 of the world's most pioneering enterprises, Mindtree brings extensive domain, technology and consulting expertise to help reimagine business models, accelerate innovation and maximize growth. As a socially and environmentally responsible business, Mindtree is focused on growth as well as sustainability in building long-term stakeholder value. Powered by more than 31,900 talented and entrepreneurial professionals across 24 countries, Mindtree — a Larsen & Toubro Group company — is consistently recognized among the best places to work.

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