FINANCIAL WELLNESS FOR TODAY

QCash Financial

November 2019

Volume 1

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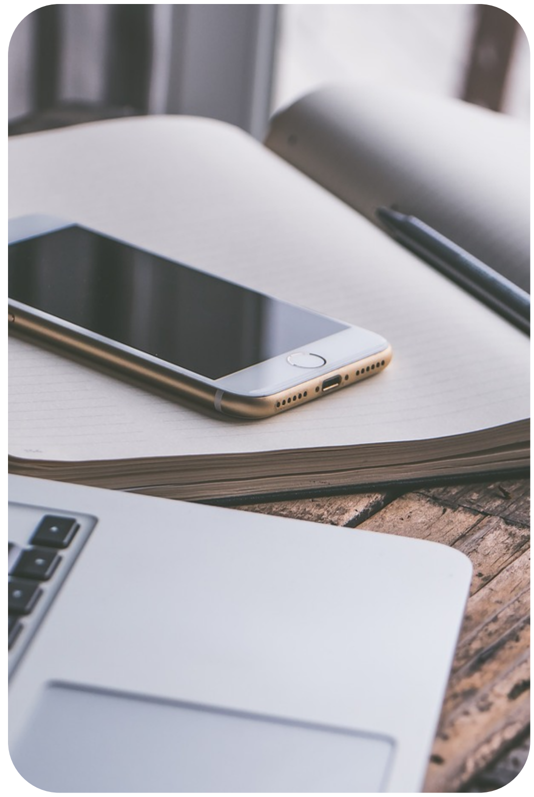
EXECUTIVE SUMMARY

All financial institutions want to promote a higher level of engagement from their customers — including the upwards of 50% who are struggling financially. Credit union executives understand intrinsically "What is good for the member is good for us." And, yet current methods are not working.

The impact of member under-engagement can be felt by:

- Overall reduced revenue and profit,
- Delinquencies and charge-offs,
- Reduced customer satisfaction, and
- Lower retention rates.

An estimated one-quarter of households have used at least one alternative financial service (AFS) such as check cashing or payday loan services in the past year. This adds up to lost potential revenue for credit unions. All the while, online lenders are eating away market share.



THE SHATTERING OF THE AMERICAN DREAM

John & Martha's story

John and Martha were long-time customers of their credit union where they had both a checking and savings account. They grew up learning the importance of saving money and had been diligent about their financial decisions. They wanted to feel secure about their retirement and ideally have money to leave to their children.

Then their reality changed overnight. One of their children was diagnosed with a serious, chronic disease while John, a construction worker, suffered an accident that undermined his ability to continue working. The combination of high health care expenses and reduced income quickly depleted their resources. They were forced to close their accounts and begin relying on check cashing establishments. Eventually, they turned to payday loans to make ends meet. It was, unfortunately, the only option available to them for the short-term credit they needed to pay their bills. Gradually, the associated fees reached into tens of thousands of dollars annually.

John and Martha are far from alone in their plight. For more and more consumers, the hope of achieving financial security has become increasingly distant as the pressures of health care expenses, education costs, retirement planning and other burdens take their toll. The stress of these challenges affects both their physical and mental well-being; personal relationships, work productivity and most every other aspect of life. Many live paycheck to paycheck, too often relying on high-cost predatory payday loans to get them through.

AMERICANS ARE STRUGGLING FINANCIALLY

A recent Financial Health Network study[1] of individual financial behavior indicators puts this into even clearer perspective. Among their findings:

- Only 28% of Americas are considered financially healthy.
- 47% spent more than or equal to their income in the last 12 months.
- 30% say they have more debt than they can manage.
- 36% are unable to pay all their bills on time.
- 22% have worried their food would run out.

A 2018 Federal Reserve report[2] concluded 44% of Americans do not have enough cash to cover a $400 emergency. A survey by Money Magazine[3] found 33% have nothing saved for retirement, while another 23% have only a small amount of retirement savings.

The Financial Health Network[1] puts it this way: "Despite a booming economy and a bevy of consumer finance innovations, the vast majority of people in the U.S. still struggle with their financial health." Yet, a third of the estimated 57% who are struggling financially have incomes above $60,000 per year.

Further research found one-third of Americans do not have an accurate handle on the state of their own finances. Per Fortune[4], two-thirds of adults cannot pass a basic financial literacy test.

AMERICA HAS A MAJOR FINANCIAL LITERACY PROBLEM

What this means for credit unions

This presents a unique challenge for financial institutions. With so many households classified as financially unhealthy, it has become imperative for both traditional and non-traditional financial services organizations to provide improved financial wellness tools that can actually change consumer behavior.

All of this points to unrealized opportunity. Says Joan Susie, chairman of Bank Director[5] and FinXTech, "There is a huge market for better products than the ones now available through the shadow banking system."

> "The biggest and savviest financial institutions are actively exploring ways to profitably provide access to credit and financial services for a significant segment of the population struggling financially."
>
> *- Joan Susie, Chairman of Bank Director and FinXTech*

Not surprisingly, the Financial Health Network[1] study found "improving customer financial health is a top business priority among senior financial institution executives." In fact, two-thirds of those surveyed said they consider financial health programs to be both profitable and "a way to increase customer loyalty." As a result, some were launching initiatives focused on financial health and wellness. "*Financial health*, the survey concluded, "seems to be the new buzzword."

What has been tried? Where has it gotten us?

Historically, financial institutions haven't always done well at tying higher levels of customer engagement into their own financial performance. They have devoted resources and attempted various approaches to improve engagement, but the return just hasn't been there.

In fact, the Financial Health Network[1] study concluded: "While improving customer financial health is widely seen as a strategic priority, executives have taken few steps to execute on it. Significant gaps remain between awareness and action."

Among those institutions that do offer financial health products, the FHN study found the following to be most prevalent:

- Secured credit cards to build or improve credit: 67%
- Personal advice or coaching to help with day-to-day challenges: 49%

- Digital financial health management or budgeting tools: 37%
- Low-cost entry-level transaction accounts: 37%
- Unsecured credit products for customers with non-prime or sub-prime credit: 26%
- Liquid, taxable savings accounts to cover emergencies or short-term needs: 22%

However, while some financial institutions are offering products to improve customer financial health, the study concluded **"*there doesn't yet appear to be a direct focus on the customer segments that are struggling the most.*"** That is beginning to change.

"72% OF AMERICANS ARE STRUGGLING WITH SOME ASPECT OF THEIR FINANCIAL HEALTH, REPRESENTING A SIZEABLE MARKET THAT MAY BE GETTING OVERLOOKED."

Financial Health Network

A recent KPMG LLP study found U.S. banks, in the face of slow revenue growth, are starting to pay more attention to customers with only basic accounts. 23% of those surveyed regard these underbanked customers as their greatest potential growth segment. That figure has doubled over just one year ago. Said KMPG's Judd Caplain, "Banks are getting more creative and thoughtful about how they target unbanked and underbanked customers."

Still, despite the best of intentions, and while the methods being employed offer definite value and are certainly on the right track, they have one problem in common: They all focus on imparting knowledge and understanding, or tools of one kind or another. However, as behavioral experts all attest, knowledge and tools, by themselves, are rarely sufficient to produce changes in habits. **The missing ingredient is consistent and progressive *practice*. As one expert put it, knowing *what* to do and *being able to do it consistently* are entirely separate skills.**

What is needed is an approach that goes beyond knowledge and understanding, to instill and reinforce heathier behavior patterns – healthier habits – that will result in consistently better decision making.

What will it take?

Financial health is not just a one-time achievement, nor is it the automatic byproduct of one or two appropriate financial tools. It is an ongoing lifestyle and, just as weight control is only part of maintaining physical wellness, financial wellness needs to go beyond just saving money. In both cases, adopting a healthy lifestyle requires making behavioral changes on a broader spectrum. That, in turn, is a matter of learning and understanding, replacing bad habits with good ones, and developing the discipline to stay the course.

Improving outcomes must begin by focusing on the individuals. Research has revealed two key causes that explain their financial underperformance:

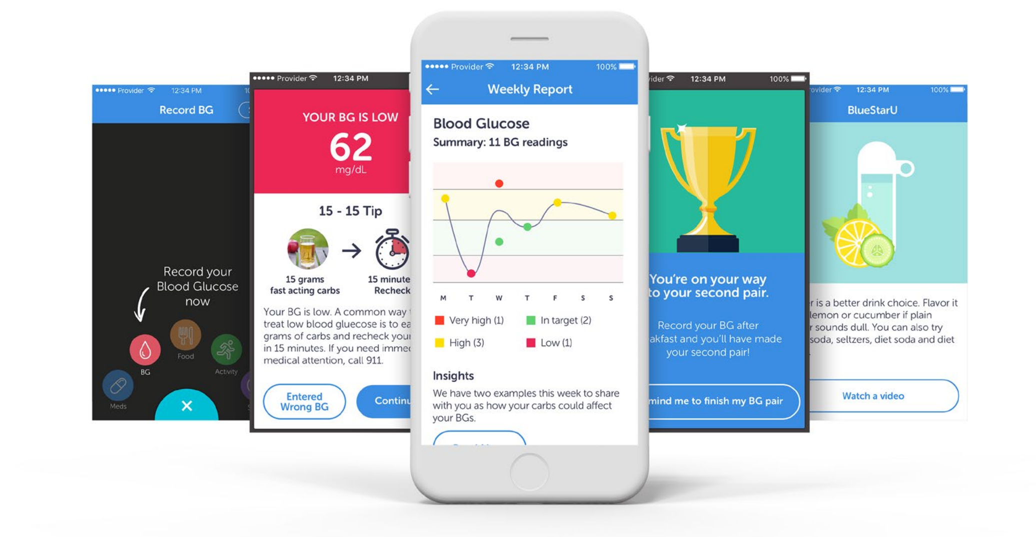
a) Individuals are stuck in a behavior pattern driven by lack of knowledge, misunderstanding, and inaccurate beliefs and attitudes, which result in an ingrained pattern of bad habits.

b) They keep repeating these mistakes because they have never learned how to escape that pattern. Their bad habits have thus become ingrained.

Merely educating these individuals via seminars, videos or printed materials is not going to change these ingrained habits. Yet, for the financial institution, personal coaching, to the degree needed, would require too much investment of time and resources.

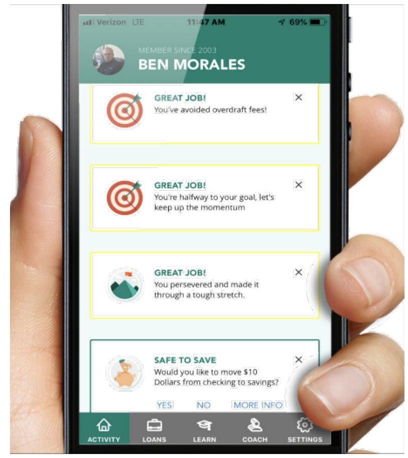
What is needed is a structured program that combines education with behavior modification, coaching and reinforcement – a program designed to guide these customers toward a financially healthy ***lifestyle***. They need to incorporate new habits and skills into their routine, and that takes learning, practice and ongoing support. Moreover, such support needs to be provided in a way that is cost-effective for both the customer and the financial institution.

The precedent for this approach can be found within the realm of cognitive behavioral therapy (CBT). CBT has been employed successfully for years to address a wide variety of medical or psychological ailments, such as weight control, depression, insomnia and diabetes. It employs proven solution-oriented techniques to identify problematic thoughts or behaviors, introduce better alternatives, and then encourage and reinforce positive decisions. In this way, little by little, healthier habits are developed.



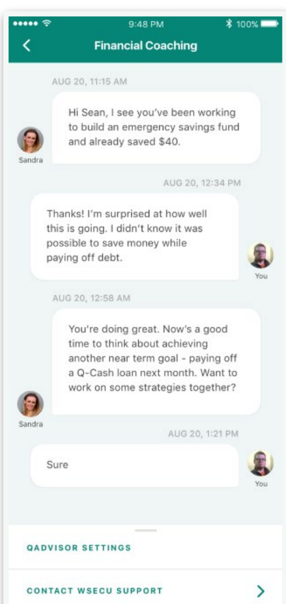
Introducing the QCash Financial Wellness app

By combining CBT with over a decade of banking experience and technical expertise, QCash Financial has developed the first-of-its-kind financial wellness app. It is an application that helps credit union members achieve financial stability and resilience through real-time behavior feedback, personalized learning, and one-on-one financial coaching.



There is a tremendous opportunity for credit unions to leverage data already collected and insights their members are willing to share. What is needed is a great financial education tool that combines education, a rewards component, tracking capabilities, ongoing engagement and a "personal financial trainer."

Our white-labeled product is a mobile app for a reason — cell phones are often the only device people carry around with them throughout the day. In order to change behavior, the individual must be reached at any given point when the data begins to show they are slipping into their former habits. Using algorithmic formulas and the end users' banking data – both historical and real-time – the app analytics identify patterns, targets problem areas and then engages the user to begin the process of changing behavior. The user experience is personalized to match where the individual is on their financial journey and directs the user through notifications and alerts to make a behavior change that will result in increased savings and less spending. It understands their cash flow, how much they save, and at what point the person's checking account overdrafts. In doing so, the application begins to assess the customers' behavior toward spending and saving money. It's a powerful combination of data science and gaming, along with **a critical success component – the engagement of a human financial coach.**



Users are able to call and text a financial expert to receive one-on-one support. The coach is given access to a comprehensive dashboard specific to each user to help them "diagnose" areas of improvement.

The wellness app is an integrated digital financial therapy solution that represents a powerful yet provocative new idea – that by engaging consumers in managing their day-to-day finances, we can change their spending and saving behaviors from those that perpetuate debt to ones that build financial capacity. The ultimate goal is long-term financial stability.

It's a win-win

Consumers need a way to improve their financial health by changing behavior. When successful, the financial institution benefits, too. These healthier customers will have larger deposit balances, reduced delinquencies, and higher overall satisfaction – all of which will increase customer retention rates along with favorably influencing the organization's overall brand value and creating a competitive advantage.

At QCash Financial, we believe every person has the capacity to create and achieve lasting financial well-being if given the tools and the resources to do so. Every credit union has an opportunity to strengthen its bottom line, fortify its member relationships, and create lasting change by pursuing this objective. Join us in our quest to eradicate poverty and improve financial health for everyone.

Contact us today to learn more at 1.800.893.7893 or info@qcashfinancial.com

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Sources:

1. 2018 Financial Health Network study: https://finhealthnetwork.org/inaugural-u-s-financial-health-pulse-report-finds-only-28-percent-of-people-in-america-are-financially-healthy/
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