



REPORT

Overlooked Areas of Effective Financial Wellness Strategies

CONSUMER UNCERTAINTY

22%

said they were pessimistic about their household finances in the next 12 months

46%

reported their incomes were not keeping up with inflation

79%

called inflation one of their top three financial concerns

Financial institutions are under increased pressure to provide the guidance, support and education that help consumers secure their financial well-being. As trusted advisors, banks and credit unions are in a unique position to help guide accountholders on their financial journeys.

Today's consumers actively seek that guidance, particularly given the growing sense of uncertainty that many of them are experiencing.

The challenge facing many financial institutions is deciding how they can establish effective financial wellness initiatives that aid their accountholders. In addition to connecting consumers with its carefully curated product and service offerings, how can a bank or credit union empower accountholders and instill the financial knowledge and habits they need?

In looking at what goes into successful and effective financial wellness strategies, TransUnion identified three areas financial institutions often overlook that are worth exploring.

CONSUMERS RECOGNIZE THEY LACK FINANCIAL LITERACY

Many consumers recognize that to ensure their financial well-being, they need to improve their understanding of how money and credit works.



SOURCE | JD Power, [What Role is Poor Financial Literacy Playing in Financial Health of American Consumers?](#), 2023

DEFINING FINANCIAL WELLNESS

While individual organizations may describe financial wellness in different terms, the Consumer Financial Protection Bureau (CFPB) provides guidance that serves as an effective standard for the industry.

Based on its direct research of consumers, the CFPB uses four criteria to define financial well-being:

- **The capacity for a consumer to have control over their finances**
- **The ability to handle a setback**
- **Being on track to meet financial goals**
- **The freedom to make choices so the consumer can enjoy life**

To reach that stage, consumers need to understand the basics of income, saving, spending, investing and protection. When consumers adopt smart, effective habits related to these financial basics, they're generally acting in a way that enhances their financial stability, and better enables them to reach their goals and weather most unexpected setbacks they encounter.

Banks and credit unions typically know how to talk to consumers about the basics of budgeting and planning. The products and services offered by financial institutions are designed to help consumers along a continuum that ideally improves their financial situations – making them eligible for more advanced and profitable offerings.

Given the familiarity and expertise in those five financial basics, financial institutions can naturally address them when they set up financial wellness strategies.



CONSIDERATIONS MANY OVERLOOK

While the basics of income, saving, spending, investing and protection are useful, there are additional factors that can significantly influence a consumer's financial well-being – by either opening opportunities that can help accelerate their journeys or introducing challenges that can undermine the progress they've made.

In looking at financial institutions with the most effective financial wellness strategies, they typically go beyond these basic concepts, incorporating three subject areas their peers often overlook. Yet, when banks or credit unions incorporate them into their financial wellness strategies, it can make their programs particularly beneficial for both the consumer and the organization.

1. CREDIT LITERACY

A consumer's credit history and the strength of their credit score can have a major impact on their ability to access the products and services that can help them along their financial journey. Its function of helping evaluate a loan applicant's credit-worthiness – and determining how much they'll pay for borrowing that money – has a direct impact on their financial wellness. Their credit can also be taken into consideration during an employment or rental application. Despite the significant role credit scores play in their financial lives, many consumers do not understand them. This lack of understanding is pronounced early on as consumers establish their credit histories. While nearly all (98%) Gen Z consumers surveyed by TransUnion recognized the importance of access to credit,¹ a recent report from FICO® revealed 20% of Gen Z consumers claimed they know little to nothing of credit scores. About a third of Gen Z respondents told FICO they either don't have a credit score or, more concerning, don't know if they do.

Among consumers who stated they "somewhat understand" what a credit score is, they may not understand all the factors that influence their own credit scores – or how decisions they make can help or hurt their score over time.

Effective financial wellness programs recognize many consumers lack a sufficient understanding of credit, and therefore incorporate content designed to improve credit literacy among accountholders. As those consumers become aware of the importance of credit health and, more importantly, how their actions can shift their credit scores both positively and negatively, it gives them control as they work toward their financial goals – two components of the CFPB's definition of financial wellness.

Benefits of including credit literacy

Improving the credit literacy of consumers can deliver substantial benefits to the financial institution as well. As an accountholder's credit score and general financial standing improves, they become eligible for more advanced products and services. For the bank or credit union that helps them reach that goal, the lifetime value of that consumer increases.

To incorporate credit literacy into their financial wellness strategies, savvy financial institutions typically work with the credit bureaus to offer free credit score monitoring. By making credit scoring part of its standard offerings, the financial institution both raises awareness and demonstrates its importance – illustrating the significance of tracking credit activity.

Incorporating interactive tools – like credit calculators that show how a consumer's decisions can either help or hinder their credit score – inspires the accountholder to become personally involved. As consumers learn how to influence their scores, they often check more frequently to see if they have improved. This gamification strategy is particularly effective when integrated into the FI's online banking platform – as it can encourage greater engagement of other digital tools.

85%

of consumers said they feel more secure in the rest of their lives when their credit score is healthy²

¹ TransUnion, [Consumer Pulse Study](#), Q2 2023

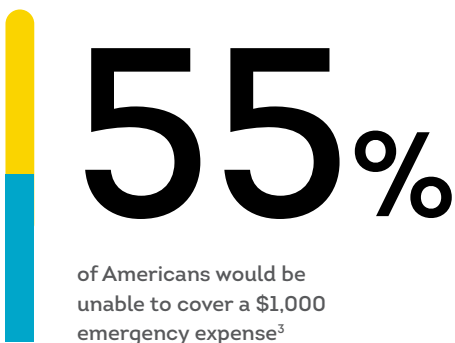
² FICO, [Consumer Survey Reveals Key Relationship between Financial Confidence and Credit Scores](#), 2023

2. IDENTITY SAFETY

There is a familiar saying that “Possession is nine-tenths of the law.” When it comes to a consumer’s financial well-being, few things can be as disruptive as losing ownership of all they’ve worked for. With the historic number of data breaches and instances of identity theft today, every consumer’s control of their financial wellness is at risk.

The fact a single identity crime can dismantle a consumer’s ability to achieve any of the CFPB’s four aspects of financial wellness means the connection between identity safety and financial wellness is real.

A recent survey showed nearly half of US adults would be unable to cover the cost of an identity fraud incident, which averaged more than \$1,300 last year.^{3,4} But that’s usually a temporary, out-of-pocket expense. There are long-term consequences as well.



Cybercriminals often use stolen identity details to open a new credit cards or other loans. If the fraudster doesn’t make the necessary payments, it can negatively impact the credit score of the victim whose identity was used. Until the identity crime is resolved, it can prevent them from finding an apartment, getting a job or securing a loan they genuinely need.

There’s also the impact on the victim’s focus, productivity at work and emotional well-being because the effort involved in closing or cancelling accounts, changing passwords or remediating damage done to credit scores can take a toll as well.

While a few forward-thinking financial institutions have begun connecting the dots between identity safety and financial wellness, most banks and credit unions historically have excluded identity safety from their financial wellness strategies. Too often, that separation is a result of silo-based thinking: organizing their strategies based on the FI’s department structure rather than thinking like a consumer.

There’s also a misconception that can dissuade banks and credit unions from including identity safety as part of their financial wellness strategies. That misperception is consumers are lazy when it comes to cybersecurity. A financial institution understandably won’t want to waste time and effort trying to get accountholders to protect themselves when it traditionally views identity safety as tangential to financial well-being.

The reality is when it comes to identity protection and cybersecurity, consumer inaction is not caused by laziness but rather simple confusion. The advice found online is often contradictory, and few resources offer the kind of personalized action plans that can have a measurable impact. Among those surveyed who were concerned about identity safety but did not take any recent action to improve it, 50% said they didn’t act because they were unsure of what to do. Another 14% said they were simply overwhelmed by cybersecurity information.⁵

Benefits of including identity safety

By countering that confusion and developing a financial wellness strategy that includes tools and education about identity safety, banks and credit unions can help eliminate that inaction. Not only does this enable consumers to better protect their financial stability, it can also help the organization reduce the risk of loss due to identity fraud.

When credit union members and bank customers are connected with the tools and insights they need to protect themselves from identity crimes, they tend to adopt stronger cybersecurity habits. This increased awareness makes them more secure and resistant to setbacks caused by identity and cyber crimes.

Similar to incorporating credit literacy into the online banking platform, embedding an interactive identity protection solution – one that provides personalized insights and action steps for mitigating the consumer’s identity risks and measures the improvements to their protection – can encourage greater digital engagement across all the security tools the institution has invested in.

\$1,300

average cost for remediating an identity fraud incident in 2022⁴

³ NerdWallet, [Consumer Savings Report](#), 2023

⁴ Javelin Strategy & Research, [Identity Fraud Study: The Butterfly Effect](#), 2023

⁵ TransUnion, [Consumer Pulse Survey](#), Q1 2023

3. FINANCIAL INCLUSION

There are a variety of factors – both historic and cultural – that contribute to certain populations being underrepresented in mainstream financial services. In fact, 1 in 5 US adults (more than 60 million consumers) currently sit outside the credit ecosystem or lack sufficient credit data to be scored by traditional risk models.⁶

That exclusion limits both their chances of improving their situations and the opportunities financial institutions have to engage with them.

Several studies have shown barriers to achieving financial health disproportionately impact women and people of color.⁷ As a result, they cannot access financial resources because they have little to no credit – which is critical to providing the stability and opportunities needed to secure their financial futures.

Yet, the nation's changing demographics mean these two populations will continue to increase in number and economic power. Financial institutions need to cultivate relationships and build trust with these consumers if they intend to stay relevant in the future.

The good news is 63% of consumers said they definitely would not switch banks and 78% said they definitely would continue to bank with a financial institution that helped them during difficult economic times.⁸ It's therefore in the best interest of banks and credit unions to engage with these consumers now; evaluate them using more a holistic view of their situations; and empower them with the necessary knowledge, tools and financial products.

Banks and credit unions can build lasting relationships with unbanked consumers by connecting them with the financial education, credit literacy, identity protection tools, and financial products and services that lift the barriers they face, enable them to take control of their situations, and put them on the road to brighter financial futures.

TransUnion has found three levers to be essential to advancing financial inclusion



Benefits of including financial inclusion

Incorporating financial inclusion into their financial wellness strategy ensures a bank or credit union can deliver on its mission – whether that is to promote the financial well-being of accountholders, the community it serves or its shareholders.

The increased loyalty expressed by consumers who are supported by their financial institutions during challenging times can generate new opportunities for revenue, engagement and increased lifetime value.

On an individual level, when someone who has been underrepresented by the mainstream financial ecosystem receives guidance, knowledge and tools designed to improve their financial situation, they feel valued and gain a sense of belonging. Individuals who feel a sense of belonging with their financial institution are 160% more likely to have stronger financial health.⁹

That sense of belonging also builds trust and deepens the consumer's relationship with the institution – which can increase the lifetime value of each accountholder.

The overall market impact of successful inclusion efforts can reap significant rewards for the entire industry. One study revealed full participation of Black Americans in the financial ecosystem would generate about \$60 billion in additional revenue in the financial sector.¹⁰

Those who feel a sense of belonging are
160%
more likely to have better financial health⁹

⁶ Analysis of U.S. census and TransUnion's U.S. consumer credit database

⁷ Financial Health Network, [Financial Health Pulse 2022 U.S. Trends Report](#), 2022

⁸ J.D. Power, U.S. [Retail Banking Satisfaction Study](#), 2022

⁹ Frost Bank, [The State of Financial Belonging](#), 2022

¹⁰ McKinsey & Company, [The Case for Accelerating Financial Inclusion in Black Communities](#), 2020

CONCLUSION

Having a thorough and effective financial wellness strategy is mission critical for today's financial institutions. Consumers expect products, services and educational programs designed to help fortify their financial well-being, and the benefits to the organization for delivering them can be significant. Yet many banks and credit unions develop cookie-cutter strategies based on their organizational structures rather than consumer-focused considerations.

To differentiate their offerings, financial institutions need to expand their financial wellness strategies to include credit literacy, identity safety and financial inclusion. By doing so, they not only deliver programs that meet the needs of consumers – they build stronger foundations that can deliver greater engagement, trust and revenue.

CREDIT AND IDENTITY TOOLS THAT EMPOWER CONSUMERS

TruEmpower™ credit and identity solutions enable financial institutions to help consumers better understand, protect, and take control of their financial health and digital identities. These solutions seamlessly integrate into existing digital experiences, allowing banks and credit unions to support consumers' unique needs and advance specific strategic business objectives. The TruEmpower suite of solutions provides meaningful digital engagement touchpoints that deliver differentiated value and foster deeper, more loyal customer relationships.

- **Education and engagement** – Provide educational tools that help consumers better understand and engage with their credit and identities, and keep them coming back to your site.
- **Identity protection and management** – Empower consumers and businesses with tools and support to manage and protect their identities and digital lives.
- **Insights and monetization** – Use deeper consumer insights and unique tools to identify and act on targeted monetization opportunities, expanding your share of wallet.

© 2023 TransUnion. All trademarks or trade names are properties of their respective owners. All rights reserved.

To learn how our TruEmpower solutions help financial institutions create effective financial wellness strategies, visit: transunion.com/truempower

