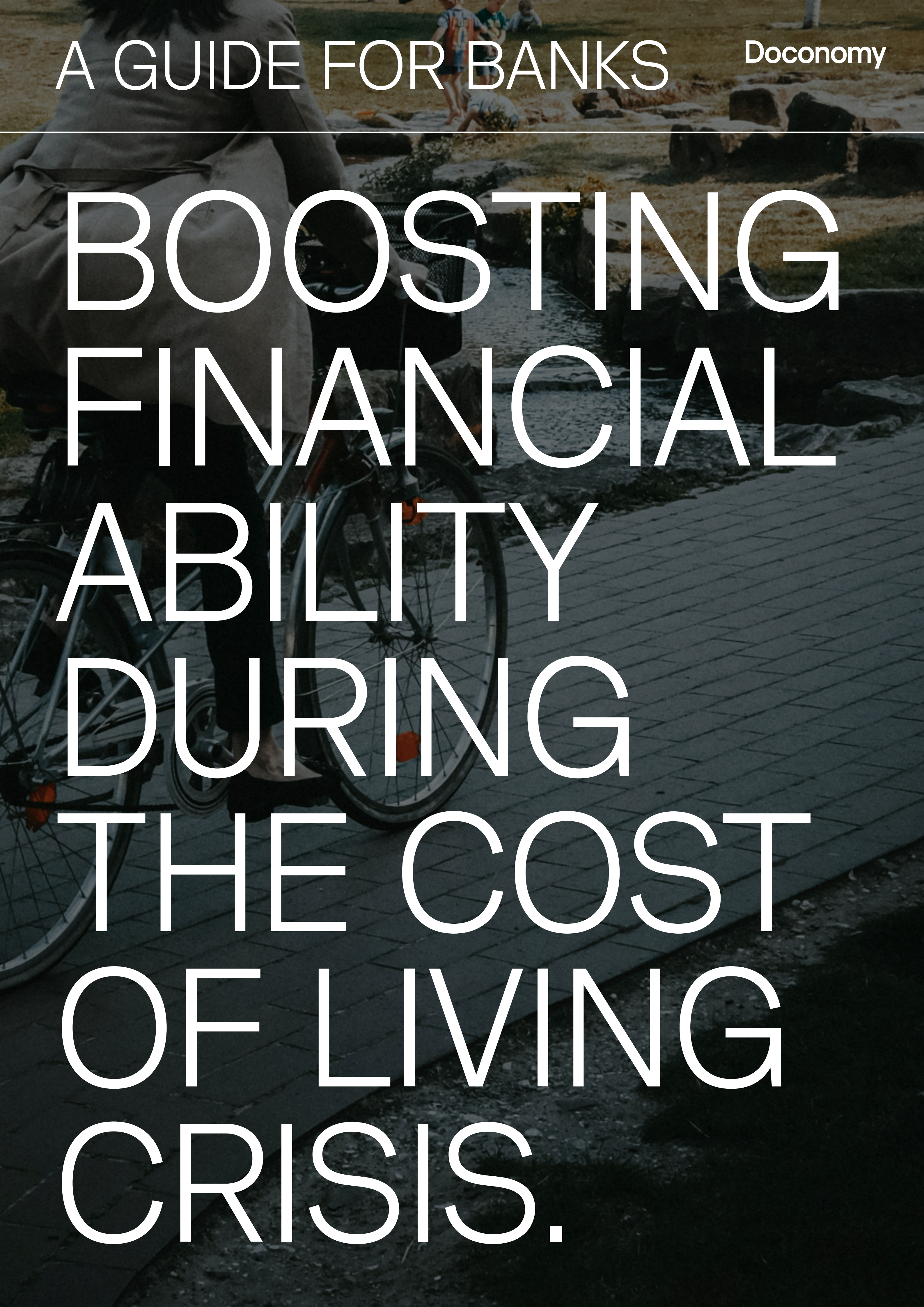
A GUIDE FOR BANKS

Doconomy



BOOSTING FINANCIAL ABILITY DURING THE COST OF LIVING CRISIS.

WHY BANKS NEED TO FOCUS ON THEIR CUSTOMERS' FINANCIAL ABILITY

Global financial instability and rising inflation are pressuring household finances, forcing many to reevaluate their spending habits. This cost-of-living crisis is likely to increase motivation for saving and financial care. However, motivation alone isn't enough for lasting behavioral change.

This white paper reveals how banks can empower their customers' financial ability—a key ingredient for developing healthy financial behaviors. We'll focus on how banks can leverage 'ability' to empower customers during uncertain times, strengthen relationships, and safeguard against increasing default rates and decreasing savings and assets under management.

By putting the human perspective at the heart of banking, we'll share how financial institutions can create value for all customers in this changing economic environment.

Read on to discover how your bank can lead this **critical transformation**.

Key takeaways

–Learn how stress caused by the cost-of-living crisis negatively impacts customers' financial ability

–Understand why it's important for banks to boost the actual and perceived financial ability to grow revenue and build customer loyalty

–Discover practical examples for banks to boost their customers' financial ability in their own products and experiences

–See how customers can be guided to save money in a way that benefits both their own financial wellbeing and reducing their impact on the environment.

CONNECTING FINANCIAL AND ENVIRONMENTAL WELLBEING

As customers navigate the cost-of-living crisis, a parallel concern is increasingly shaping their financial decisions: environmental impact. These twin challenges—managing expenses and reducing environmental footprint—are becoming inseparable aspects of modern banking.

Research shows that financial stress and climate concerns represent two leading sources of customer anxiety. The cost-of-living crisis has heightened awareness of consumption patterns, creating a unique moment where customers are more receptive to changing both their financial and environmental behaviors.

This convergence creates an opportunity. When customers are already reconsidering their spending habits due to economic pressures, they're more open to making changes that benefit both their finances and the environment. Simple shifts in daily habits—like reducing energy consumption or choosing sustainable transport options—can simultaneously lower expenses and environmental impact.

TURNING THIS CHALLENGE INTO OPPORTUNITY

Founded in Sweden in 2018, Doconomy recognizes this crucial intersection. Through partnerships with leading organizations like UNFCCC, Mastercard, and WWF, we've developed solutions that address both financial wellbeing and environmental responsibility.

Our approach helps banks:

- Transform financial constraints into opportunities for sustainable behavior change
- Make environmental impact tangible through everyday financial decisions
- Create engaging experiences that motivate lasting behavioral changes

By integrating sustainability into core banking features, we help customers discover how mindful consumption can benefit both their financial health and the planet. This creates a powerful motivation that drives continued engagement and positive change.

Understanding how to boost customers' financial ability is the first step in this transformation. Let's explore the key factors that influence financial ability and how banks can leverage these insights to create meaningful change.

THE SIX FACTORS THAT INFLUENCE FINANCIAL ABILITY

The following sections explore six crucial aspects of financial ability, helping us to gain insights into how banks can more effectively support their customers' financial well-being, especially during times of economic stress.

01. MOVING BEYOND INFORMATION TO DRIVE POSITIVE CHANGE

02. MOTIVATION, ABILITY, AND PROMPTS DRIVE FINANCIAL BEHAVIOR

03. COGNITIVE ABILITIES SHAPE FINANCIAL DECISION-MAKING

04. STRESS SIGNIFICANTLY IMPACTS CUSTOMERS' FINANCIAL DECISIONS

05. INCREASING FINANCIAL ABILITY BENEFITS CUSTOMERS & BANKS

06. PERCEIVED ABILITY IS CRUCIAL FOR FINANCIAL BEHAVIOR CHANGE

01. MOVING BEYOND INFORMATION TO DRIVE POSITIVE CHANGE

While banks often default to providing information and education to engage customers, this strategy alone is insufficient to bridge the intention-action gap. Financial education can boost motivation when delivered effectively. However it can backfire if customers don't believe they can act on it, potentially damaging confidence and increasing stress.

Focusing solely on past behaviors, like summarizing spending or highlighting overspending, may draw attention to areas needing change, but fail to address the practical and emotional feasibility of making those changes. Presenting negative information can lead to avoidance, with customers proactively shunning interactions that provoke negative emotions.

Instead, banks need to go beyond mere information provision and focus more on increasing their customers' ability to implement financial changes, addressing both the practical and emotional aspects of financial behavior.

02. MOTIVATION, ABILITY, AND PROMPTS DRIVE FINANCIAL BEHAVIOR

According to the behavior model discovered by B.J. Fogg, three components need to be in place for a behavior to occur:

1. Motivation - the person must want to take the action.
2. Ability - the person must be able to take the action.
3. Prompts - there needs to be something in the outer or inner world of the person that initiates the action.

Motivation and ability are compensatory; if one is low, the other must be high.[1]

For persistent goals like saving money, relying solely on fluctuating motivation is unsustainable. When motivation is insufficient, banks must focus on increasing ability and making behaviors easier to perform.

1. Fogg (2009). Persuasive '09. Proceedings of the the International Conference on Persuasive Technology

03. COGNITIVE ABILITIES SHAPE FINANCIAL DECISION-MAKING

Customers need to believe in their ability to conduct a behavior. Financial ability is determined by environmental conditions and cognitive abilities like self-control and working memory. These enable us to come up with a financial plan and stick to it.

Financial behavior results from a constant struggle between the rational and emotional parts of our brains. Strong self-control is related to good financial wellbeing and financial behavior.[2]

2. Strömbäck et al. (2017). Does self-control predict financial behaviour and financial well-being? Journal of behavioural and experimental finance.

04. STRESS SIGNIFICANTLY IMPACTS CUSTOMERS' FINANCIAL DECISIONS

In a series of studies, Mani and colleagues demonstrated that financial constraints or poverty, defined as:

"the gap between one's needs and the resources available to fulfill them", causes significant decreases in cognitive functioning.[3]

Our cognitive capacity is limited and, because of its sensitivity to distractions, heavily influenced by our inner and outer environment.

Just being reminded of a potential financial hurdle reduces cognitive capacity to the same degree as losing one night of sleep.

This stress-induced focus on the present at the expense of future planning persists even with financial incentives.

3. Mani et al. (2013). Poverty impedes cognitive function.

05. INCREASING FINANCIAL ABILITY BENEFITS CUSTOMERS & BANKS

Increasing customers' financial ability benefits both customers and banks, leading to higher Savings Under Management (SUM), Assets Under Management (AUM), and lower default rates.

Given the current cost-of-living crisis, it's crucial for banks to offer easy-to-use, understandable products that help increase customers' actual and perceived financial ability, especially for those experiencing financial stress.

06. PERCEIVED ABILITY IS CRUCIAL FOR FINANCIAL BEHAVIOR CHANGE

As well as having the knowledge and ability to perform a behavior, there is a second factor that is crucial for the behavior to take place.

This is perceived ability or the person's self-efficacy. The concept of self-efficacy was first introduced by psychologist Albert Bandura.[4] He explains it as:

> "the conviction that one can successfully execute the behavior required to produce the outcomes".

In finance, even if a customer understands the benefits of saving, they won't save if they don't believe they can.

Research shows that higher financial self-efficacy correlates with more investments and savings, independent of financial knowledge or status. Building ability, both real and perceived, is therefore a powerful way to increase financial inclusion.

4. Bandura, A. (1977). Self-efficacy: toward a unifying theory of behavioral change. Psychological Review, 84(2), 191-215.

Practical ways to

BUILD CUSTOMER ABILITY

Let's look at some practical examples of what banks can do to increase their customers' financial ability and well-being. It will be evident that building actual and perceived ability often go hand-in-hand.

1. GOAL-BASED SAVINGS

2. SOCIAL CUES

3. INSPIRING AND ENCOURAGING

4. EMOTIONAL CONNECTIONS

1. GOAL-BASED SAVINGS

EMPOWER THROUGH SMALL, MINDFUL ACTIONS

Grow your customers' financial ability by encouraging small, achievable goals.

Show how minor adjustments in daily habits can significantly impact long-term financial well-being.

Research shows simply reframing savings goals as weekly targets instead of monthly ones can quadruple savings rates.[5]

It's a powerful way to make banking more relevant and impactful in customers' lives.

CELEBRATE EVERY WIN

Providing positive reinforcement drives lasting change:

1 Reward progress. Timely, engaging feedback creates a feel-good factor around financial behaviors. This dopamine-driven reinforcement transforms new actions into lasting habits.

2 Shape financial identity. Each success becomes a building block in your customers' journey towards financial empowerment. By highlighting these wins, you're helping them see themselves as capable savers and investors.

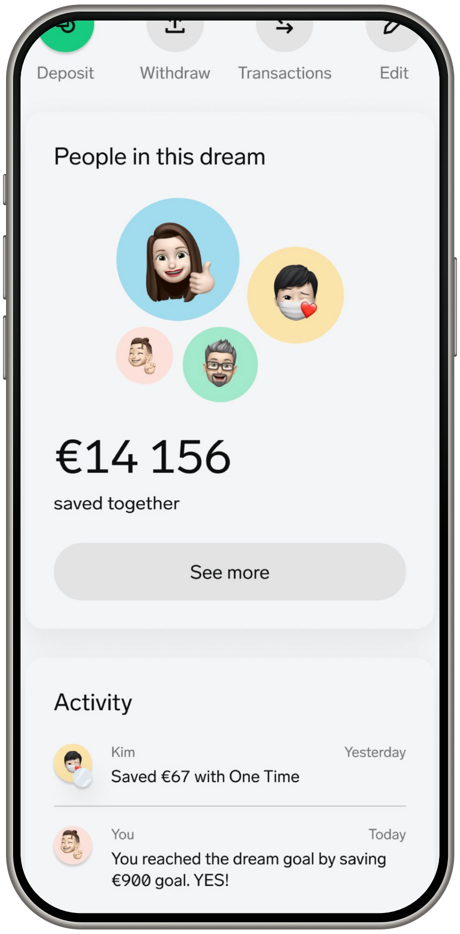
2. SOCIAL CUES

TAP INTO SOCIAL PROOF

You can empower your customers by showcasing relatable success stories. When people see others they identify with achieving financial goals, it ignites their own belief in what's possible. This is the reason why those before-and-after diet stories are so powerful—customers can envision their own journey from financial stress to financial well-being.

Another way to make use of social cues is to tap into the motivating force of social norms.

When mindful financial behaviors are perceived as normal and expected, they become easier to adopt. This creates a powerful blend of personal aspiration and social belonging.



CREATE A FINANCIAL COMMUNITY

Banks have a unique opportunity to foster a culture of positive financial behavior:

- Introduce innovative features that allow customers to save and invest collaboratively with friends and family.
- Highlight role models who embody financial well-being, making success feel accessible to all.

By weaving these social elements into your products and communication, you're not just offering financial services—you're building a community dedicated to mindful consumption and sustainable financial choices.

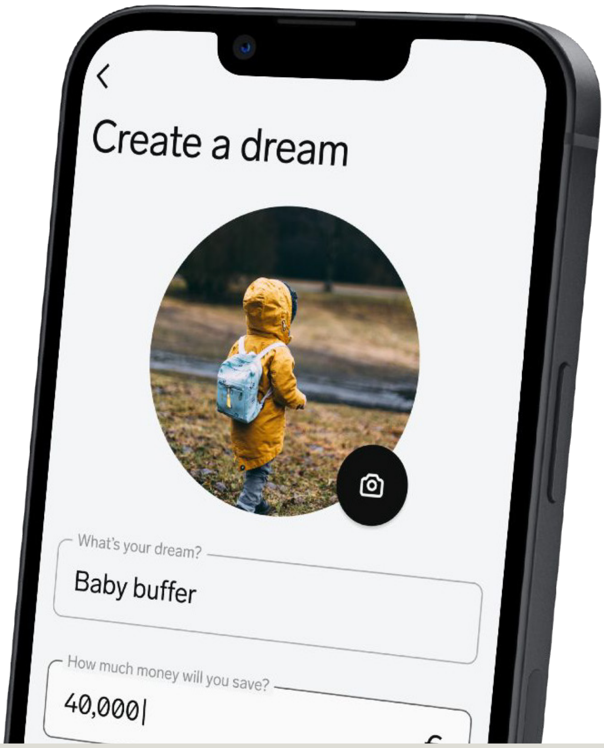
This helps you position your bank as a true partner in your customers' financial journeys.

3. INSPIRING AND ENCOURAGING

SPARK MINDFUL FINANCIAL CHOICES THROUGH INSPIRATION

Traditional personal financial management tools often miss the mark by relying solely on data-driven recommendations. While algorithms can spot potential savings, they can't grasp the deeper meaning behind spending choices. Here's how to create a more human-centric approach:

- Show customers how they can achieve their goals through behavioral changes that resonate both practically and emotionally.
- Provide inspirational ideas that customers can adapt to their unique situations.



EMPOWER AND ENCOURAGE

Boosting your customers' financial self-efficacy is about more than just providing information—it's about thoughtful persuasion that resonates on a deeper level. Verbal encouragement can be a powerful tool, but it needs to be wielded with care and precision.

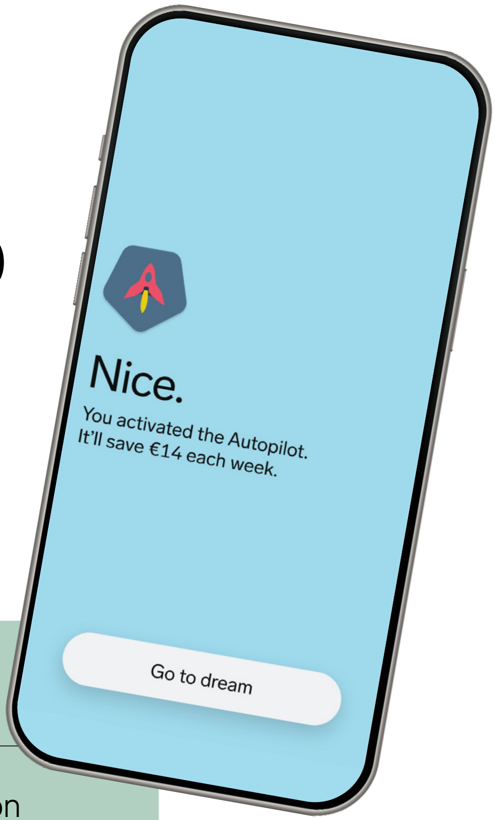
Ensure that your persuasive efforts are both realistic and aligned with your customers' emotional needs and desires. When you hit this sweet spot, you're not just offering financial advice, you're empowering customers to believe in their own financial abilities.

By adopting this mindful approach, banks can transform from service providers into trusted partners in their customers' financial journeys.

4. EMOTIONAL CONNECTIONS

EMOTIONS SIGNIFICANTLY IMPACT COGNITIVE ABILITY AND SELF-EFFICACY.

While banks can't ever fully control the emotional states of their customers, you can take important steps to ensure your products have a positive emotional impact.



BARRIER-FREE COMMUNICATION

- Use easy-to-understand language to prevent confusion and exclusion, especially crucial for customers experiencing financial stress.
- Employ emotional design to evoke positive, encouraging feelings, making financial management less daunting.
- Offer smooth, app-based solutions that appeal to younger generations, helping them identify as capable of managing finances on their own terms.

JUDGEMENT-FREE COMMUNICATION

- Focus on future positive opportunities rather than past mistakes to avoid increasing stress and lowering self-efficacy.
- Be cautious with personal financial management tools that overly focus on past behaviors, as this can be discouraging.
- When showing information about past actions, always couple it with encouraging calls-to-action to maintain a forward-looking, positive approach.

PUTTING BEHAVIORAL THEORY INTO PRACTICE

We've explored the crucial factors that influence financial ability and behavior. But how do you transform these nsights into actionable strategies? This is where Doconomy comes in. Our solutions bridge the gap between theoretical knowledge and practical implementation.

DOCONOMY'S HUMAN-CENTRIC FINANCIAL EMPOWERMENT

Doconomy provides the first engagement banking experience to drive effective behavioral change through science:

- 10 years invested in developing our scientific method by our in-house science team working together with researchers at world leading universities.
- Research collaborations with 8 worldwide leading institutions
- Scientific studies run on thousands of end-users to improve our method
- Over 100 insights from psychology, neuroscience, and behavioral economics built into the interface

Our human-centric approach has yielded remarkable results:

- Customers save an average of €2000 more annually (5% of annual salary).
- 28% of active users developed saving habits they didn't have before.
- Users report significant improvements in financial self-efficacy within just two months.

These outcomes demonstrate how Doconomy's solutions can help banks boost their customers' financial ability, creating long-term engagement and financial well-being. By partnering with Doconomy, banks can become true catalysts for positive financial change in their customers' lives.

Doconomy's Savehacks revolutionize how banks can boost their customers' financial ability. These sophisticated tools, grounded in behavioral science, transform saving from a chore into an engaging experience.

Savehacks move money from current accounts to dedicated saving or investment accounts linked to specific goals.

They embody the key principles of enhancing financial ability we've discussed, offering banks a powerful way to:

- Make saving accessible and enjoyable for customers
- Cater to varied customer preferences and needs
- Create positive reinforcement in financial behaviors

MINDFUL BEGINNINGS

Empower customers by breaking large financial goals into manageable daily or weekly targets

SOCIAL FINANCE

We encourage group savings and investments, encouraging mutual inspiration and support among customers.

SIMPLIFY AND ENGAGE

Doconomy uses emotional design to make financial communication understandable and stress-reducing.

CELEBRATE EVERY WIN

Timely positive feedback reinforces good financial behaviors and boosts customer confidence.

INSPIRATION, NOT PRESCRIPTION

Our savings marketplace offers adaptable, inspiring ways to save money without being prescriptive.

ENVIRONMENTAL WELL-BEING

Doconomy links financial and environmental wellbeing by offering sustainable savings goals and green investment options.

THE BUSINESS VALUE OF BOOSTING CUSTOMER FINANCIAL ABILITY

Empowering your customers' financial ability is a win-win strategy.

BUILDING A FOUNDATION FOR MUTUAL SUCCESS

Boosting your customers' financial ability isn't just good for them—it's a game-changer for your business.

By empowering your customers to make mindful financial decisions, you're not only enhancing their financial health and well-being but also fostering deep-rooted loyalty.

Imagine the impact: increased engagement, higher savings and investments, and improved debt management. This translates directly to growth in your Savings and Assets Under Management, coupled with lower credit default rates.

At Doconomy, we've seen firsthand how this human-centric approach creates a win-win scenario, driving sustainable growth for banks while genuinely improving customers' financial lives. It's not just about managing money—it's about nurturing financial empowerment and building lasting relationships.

THE PROVEN IMPACT OF BOOSTING CUSTOMER ABILITY BY DOCONOMY

Financial Health

28%

of people saving with Savehacks had no savings habit before using Doconomy,

+5%

more of the annual salary saved per year, on average doubling the savings rate

74%

feel more positive about their finances after just two months of using Doconomy

59%

feel more confident and less stressed about money after just two months

CURIOUS ABOUT THE REAL-WORLD IMPACT FOR YOUR BANK?

Discover how Doconomy's solutions could benefit your bank with a customized ROI analysis—helping you assess the financial viability of implementing our well-being focused banking products.

Schedule a demo here to explore the possibilities.

BOOK A DEMO

hello@doconomy.com