Like all federally regulated banks, Discover Bank is subject to the Community Reinvestment Act, which is intended to encourage these institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods. Discover views this obligation broadly, seeking to go beyond simply meeting the Act’s requirements to finding ways to “do right for the community.” Discover’s CRA executives view the financial health challenge, especially among low- to moderate-income individuals, whom the CRA is designed to benefit, as a major societal problem that falls within its mandate and mission to address.

Discover recognizes that managing financial health is a challenge for many individuals. Research from CFSI’s U.S. Financial Health Pulse shows that only 28 percent of Americans are financially healthy. In addition, 47 percent of Americans say their spending equals or exceeds their income. Consequently, it is common for employees with steady paychecks to utilize payday lenders or to borrow small amounts against their 401(k) accounts, paying high interest rates or penalties and/or jeopardizing their retirements. Discover understands that workers need access to small-dollar loans, and that they would realize additional benefits if these loans were accompanied by a comprehensive financial health solution that also included tools and information to manage their financial lives better.

As Discover became familiar with CFSI’s research and approach to financial health, it came to believe it is possible for providers to develop financial health solutions that are economically viable and sustainable. It saw the employer distribution channel as an efficient way to deliver these solutions, and that doing so would also be good for the employer’s bottom line. CFSI research shows that nearly half of the U.S. workforce is financially stressed, and three-fourths of workers live paycheck to paycheck. Workers with high financial stress are twice as likely to take sick leave when not sick.1

1. Finding the Links Between Retirement, Stress, and Health, Lockton, 2016
In addition, many employees spend up to 20 hours per month on personal financial matters – leading to an average cost to employers of $7,000 per employee per year.2

Discover wanted to explore options for creating a comprehensive employee financial health platform that would include lending, cash flow management, saving, credit score tracking, and financial education. It turned to CFSI to assist with the organization in this effort.

CFSI’S APPROACH

Best Practices, Lessons Learned, and Design Implications

The project began with background research to ensure the team was aligned on consumer needs and provider best practices, but was ultimately focused on developing a solution that could be brought to market. CFSI’s research included:

- Providing a comprehensive evaluation of employer and employee challenges
- Assessing the potential benefits and feasibility of a platform solution, including costs, profitability, and time to market
- Recommending platform features and design based on industry best practices
- Evaluating the benefits of building vs. buying a solution
- Recommending potential partners for developing the platform

We recognized that behavioral changes are required to improve financial health, but behavioral change is difficult. Consequently, we began with a deep dive into behavioral research and published experiments and distilled our findings into implications for platform design that could lead to desirable behavioral change. These included providing information in relevant, digestible forms; avoiding too many choices, which can lead to indecision and inaction; and providing personalized recommendations and follow-up with reminders and nudges to encourage new behaviors.

We used the output of the behavioral research and management input to develop a detailed set of requirements for the platform, including “must-have” and “nice-to-have” elements related to the loan application, origination, and servicing experience; underwriting criteria and performance; loan characteristics; user interface; savings and cash flow management functionality; and financial education components. Given that the initiative originated from a desire to help users improve their financial health, the team agreed that it would be critical to track user impact metrics, in addition to traditional business performance indicators. Therefore, the platform requirements included usage and outcome tracking capabilities.

CFSI has deep knowledge of the financial health challenges that Americans face AND recognizes the need for financial institutions to develop profitable and scalable products. Partnering with CFSI, with its strong knowledge base and relationships within the fintech marketplace, significantly catalyzed and enriched conversations with potential partners.”

Matthew Parks, Director and CRA Officer, Discover Bank

2 Is Your Company a Great Place to Work?, MetLife, 2014
In order to simplify the launch and ongoing management of the initiative, CFSI recommended that Discover select a single provider, rather than a group of providers each supporting different portions of the offering. This would require Discover to make compromises in the functionality offered. However, CFSI facilitated the decision about the trade-offs to make by ranking and prioritizing features based on Discover’s goals. CFSI shortlisted three providers who we believed could best meet the objectives.

With CFSI’s recommendations in hand, Discover is working to further explore the opportunity to work with employees to provide a financial health solution.

**OUTCOMES**

Armed with the platform requirements, we set out to identify and vet potential partners for Discover. We conducted a broad scan of the market, leveraging secondary sources to identify over 30 providers that had at least one of the must-have or nice-to-have requirements. We then evaluated how well each of their offerings fit with the platform requirements and identified the most promising providers. We conducted interviews with the nine top prospects to better understand their interest in the concept, pricing structures, and fit with Discover’s vision. Finally, we conducted demo calls with five providers to introduce Discover and gain additional insights.

Ready to convert your vision into a concrete product design? We’re here to help. Learn more about our expertise at cfsinnovation.org/consulting.