Dear Reader,

The Compass Principles are guidelines for the U.S. financial services industry. They affirm standards of excellence in the design and delivery of basic tools that people use to manage their daily financial lives, such as checking and savings accounts, prepaid cards, and small-dollar loans.

The Center for Financial Services Innovation (CFSI) began formulating the Compass Principles to offer aspirational guidelines for what constitutes quality in innovation and execution of basic services—those that allow people to transact, borrow, save, and plan in ways that are beneficial to the consumer and profitable for industry.

Starting in the fall of 2011, we asked you to join us in developing the Compass Principles. CFSI released a public draft of the Principles and sought feedback from providers, consumer advocates, and other experts. We felt strongly that engaging the best thinkers in the marketplace would help ensure that the Compass Principles are as robust, comprehensive, and effective as possible. Your insights and feedback have enhanced the framework and proved that you share our vision for a future in which financial services actively contribute to making people’s lives better, and deliver sustainable value to all providers and consumers.

This white paper articulates our bold vision, which stems from our belief that financial services offerings must be profitable and scalable from a business standpoint in order to offer lasting solutions for consumers. The Compass Principles and their application must be grounded in knowledge of consumer needs and demand, as well as the desire to meet those needs safely and responsibly over the long term. We acknowledge that no single provider can meet the totality of the Compass Principles vision for the marketplace; that there is value to variation and choice in the marketplace; that no one approach is right for all consumers; and that providers and consumers must both act responsibly for healthy financial relationships to flourish.

The examples provided below reflect CFSI’s mission—to transform the financial services marketplace in the United States in a way that empowers underserved consumers to achieve financial stability and prosperity. But ideals of quality are no different for any user of a product or service, and it is our goal to inspire financial innovation in the broad marketplace that links consumer success to provider success.

Today, we continue to face real concerns from customers, employees, the media, and regulators about the value delivered by financial services providers. Thus, there is an important opportunity for all of us to take action. No matter what role you play in the marketplace, make a commitment to meaningfully integrate the Compass Principles into your financial services work.
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Vision, Values, and Principles

The Aspirational Vision:
The U.S. financial services marketplace actively contributes to improving people’s lives, and delivers sustainable value to all consumers and providers.

The Values: A Solid Foundation
The Compass Principles are guided by:

- Profitability and Scalability: The Compass Principles provide a framework that is pragmatic, achievable, financially sustainable, and scalable.
- Deep Customer Knowledge: The Compass Principles are formulated and must be implemented with a solid understanding of real consumer needs.
- Safety: The Compass Principles support and build upon consumer protections.
- Variation and Choice: The Compass Principles allow for judgment on the part of individual providers because there is no one right way to meet all customer needs.
- Relationships: The Compass Principles focus on success for both consumers and providers, and encourage viewing each customer interaction as an opportunity for a long-term relationship.
- Cross-Sector Participation: The Compass Principles incorporate the perspectives of a range of practitioners and experts.

The Compass Principles
Each Principle is described further below, including a sample of indicative practices along with examples of how the principles might be applied to transaction, credit, and savings products.

EMBRACE INCLUSION: Responsibly Expand Access
Consumers, including those from traditionally underserved groups or communities, are creatively reached and well served with a relevant suite of quality, affordable financial services that promote consumer choice and are provided in a safe, dignified, and convenient manner.

BUILD TRUST: Develop Mutually Beneficial Products that Deliver Clear and Consistent Value
Consumers can clearly understand and derive value, without pitfalls or unwelcome surprises, from financial products designed to align provider and consumer goals.

PROMOTE SUCCESS: Drive Positive Consumer Behavior through Smart Design and Communication
Consumers are empowered to make wise money choices via smart product design and guidance that is relevant to their specific concerns and financial situations, coincides in a timely fashion with key life events or decisions, and is immediately actionable.

CREATE OPPORTUNITY: Provide Options for Upward Mobility
Consumers have appropriate options that create opportunities for increased financial prosperity, and they are encouraged to pursue those opportunities.
Vision and Values

Aspirational Vision for the Future
Millions of people in our country are struggling. The financial crisis has increased pressure on income and savings, while financial products and services have become less accessible and less affordable. Many households lack sufficient access to quality, affordable financial services to manage their money successfully in the short term while building savings and assets over the longer term.

More than 60 million consumers are currently not well served by the U.S. financial services industry. Access to fair and responsible credit is a serious challenge. Thus, the sizable gap between consumer demand and the market portfolio of relevant products and services creates a significant opportunity to generate new business.

The financial crisis has also dramatically changed the regulatory environment for the financial services industry, and new regulations will play a significant role in reshaping the landscape for providers and consumers. But regulation is only one piece of the equation. Regulation alone will not shape the future of financial services. Indeed, in some cases, the new regulations may have the unintended consequence of further limiting access. New regulations will define what the industry must do to keep consumers safe.

Now is the time to define what the industry can do to create an aspirational vision for the future in which financial services are safe and actively contribute to improving people’s lives.

While aspirational, this vision sets out goals that are achievable. In some cases, alignment with the Principles may require only a slight operational or strategic shift. The Principles are designed to delineate a realistic path for providers, recognizing that no single provider can be expected to meet the needs and preferences of all consumers. Rather, if each provider does its part to contribute to the Compass Principles vision, the marketplace as a whole will be transformed.

The Values: A Solid Foundation
The Compass Principles are guided by the following six values:

Profitability and Scalability
The Principles recognize that financial services must be profitable and scalable from a business standpoint. Profit should not be a bad word. Of course, certain business models, especially in the nonprofit sector, allow for break-even scenarios or financial sustainability through subsidy, but most providers must make a profit in order to offer consumers lasting, high-quality solutions. While the Compass Principles are clearly antithetical to the idea of companies profiting by harming consumers, the framework supports profitability through products that intentionally align consumer and provider success. These are the types of products more likely to be around for the long term, and more likely to be scalable. In addition, achieving significant scale of quality offerings is critical to addressing widespread consumer financial needs.
Vision and Values

Low- to moderate-income consumers especially need high-quality, lasting solutions. Investing in new strategies to serve low- and moderate-income individuals represents not only an opportunity for the financial services industry to make a positive difference in people’s lives, but also presents a compelling business opportunity. Currently, these consumers often meet their financial needs through expensive and sometimes predatory services. Successfully serving the financial needs of these consumers through innovations in products, marketing, distribution strategies, and risk management mechanisms is a highly attractive business opportunity.

Deep Customer Knowledge
Perhaps most importantly, these Principles must be grounded in a solid understanding of what consumers need and want from financial services, as well as how they engage with financial services. Low- and moderate-income consumers, for example, often conduct their financial transactions in “real-time” and have little or no cushion for day-to-day fluctuations in their cash flow, unexpected expenses, or future planning. The importance of consumer knowledge in determining guiding principles and best practices cannot be overstated, in part because how consumers use a product or service may determine whether the product is harmful or effective.

Safety
Strong consumer protections are a critical and fundamental marketplace requirement. Financial services should not make life more difficult for users. Features, fee structures, and underwriting practices should not reduce consumers’ financial well-being. The Compass Principles are meant to support and build upon consumer protection laws and regulations. Sometimes, to inspire industry to act before a mandate, Compass Principles recommendations may overlap with policy recommendations. The Compass Principles are intended to encourage providers not only to comply with consumer protections but to engage in a race to the top, rather than to the bottom.

Variation and Choice
The goal of this initiative is not to lead consumers to the same products and services—there is too much inherent value in choice, diversity, and continued innovation. These Principles are about guiding, enabling, and encouraging the right access for consumers, and meeting their needs with new and creative solutions that help them achieve their financial goals.

The Principles acknowledge the many trade-offs that exist in designing products and services that will increase consumer financial prosperity. For example, financial providers have to strike an inherent balance between offering products that are simple versus incorporating robust features and functionality. Achieving the right balance is not easy. There is no single right way to meet customer needs, and providers will create their own customer value equations for their products and services. Therefore, the Principles should allow for judgment on the part of individual customers and providers.
**Vision and Values**

**Relationships**
At the heart of the Principles is a commitment to mutual success in the customer-provider relationship. A healthy financial relationship can exist only when both the customer and the provider act responsibly. In today’s environment, many customers are increasingly estranged from their financial providers, and some financial providers are overly focused on monetizing segregated transactions and accounts. These Principles promote a reversal of this dynamic. By reframing each customer interaction as a source of many future engagements, and aligning company culture and incentives accordingly, providers can successfully and profitably offer, structure, and sell products and services that promote a positive customer relationship. Additionally, customers must take the initiative to be fiscally responsible in learning about, accessing, and using the high-quality products and services available to them. A positive customer experience can then lead to increased involvement with the financial institution.

**Cross-Sector Participation**
To inspire trust, this framework reflects an appreciation for the distinct and valuable perspectives of providers, consumer advocates, regulators, and policymakers. If these Principles are to result in lasting, positive change for consumers, everyone who can influence the marketplace must embrace and act upon them. That includes not only financial services providers, but also the technology vendors and solution providers in the financial services supply chain and nonprofits, government, retailers, and others. Each of these institutions will implement the Principles differently, but each has a crucial role to play. These Principles thus seek to represent the best thinking and greatest optimism of all stakeholders in the marketplace.
Principle #1 – Embrace Inclusion: Responsibly Expand Access

Consumers, including those from traditionally underserved groups or communities, are creatively reached and well served with a relevant suite of quality, affordable financial services that promote consumer choice and are provided in a safe, dignified, and convenient manner.

PRACTICES – Providers who achieve this goal will:
- Offer applications for their best, most affordable products to all customers who qualify.
- Value diversity in their workforce and their customer base.
- Treat customers, individually and collectively, with respect and dignity.
- Creatively expand their reach by leveraging the capabilities of a wide range of partners and distribution channels.
- Use data and analytics to deeply understand the specific financial needs and capabilities of low- and moderate-income consumers.
- Design inviting, convenient touchpoints that are consistent with consumers’ cultural and behavioral expectations.

EXAMPLES of applying this principle to TRANSACTION PRODUCTS are:
- Offering prepaid cards that are network-branded.
- Enabling bill payment through nontraditional venues such as self-service kiosks.
- Designing an account-opening process that manages the provider’s risk without unnecessarily limiting access to potential consumers.
- Creating transit fare or government benefit cards that also enable general purpose transactional accounts.

EXAMPLES of applying this principle to CREDIT PRODUCTS are:
- Expanding the underwriting process to safely incorporate positive data not captured by traditional credit reporting.
- Creating peer groups to support safe borrowing and maximize the likelihood of repayment.
- Providing safe, affordable, small-dollar secured loans to consumers with thin or no credit files, and reporting positive repayment to the credit bureaus to help improve credit scores.
- Ensuring consumers receive the highest-quality and most affordable loan for which they qualify.

EXAMPLES of applying this principle to SAVINGS PRODUCTS are:
- Opening savings accounts for consumers as they file taxes to enable quick refunds that can serve as initial deposits.
- Pairing transaction products with savings “wallets” to provide a convenient way to save.
- Creating low barriers to entry, including low initial account opening and minimum balance requirements.
Principle #2 – Build Trust: Develop Mutually Beneficial Products that Deliver Clear and Consistent Value

Consumers can clearly understand and derive value, without pitfalls or unwelcome surprises, from financial products designed to align provider and consumer goals.

PRACTICES – Providers who achieve this goal will:

- Develop ongoing, long-term relationships with consumers, characterized by mutual support and accountability.
- Educate consumers on the best and highest use of a product or service.
- Analyze customer usage patterns to determine if features or structures should be adjusted to minimize or eliminate harmful outcomes.
- Strive to consistently deliver reliable, zero-defect products and services, and act swiftly and fairly to resolve issues or disputes.
- Design fee schedules to encourage supportive rather than punitive customer-provider relationships.

EXAMPLES of applying this principle to TRANSACTION PRODUCTS are:

- Providing multiple methods for consumers to quickly access their balance information and transaction history according to their own preferences.
- Enabling the ability to request a single paper statement or ongoing paper statements for a prepaid card account.
- Limiting the number of times a consumer can be charged the same fee within a given timeframe before contacting the consumer to offer education, information, or alternative products that may be more appropriate.
- Offering safe, easy-to-understand options for overdrafts, such as a line of credit or linking checking to savings accounts.

EXAMPLES of applying this principle to CREDIT PRODUCTS are:

- Conducting an underwriting process based on a consumer’s ability to repay the debt.
- Establishing repayment timing and structures that enable borrowers to repay debts without borrowing again.
- Explaining the total cost of the credit at the time of the loan application.
- Allowing reasonable grace periods to help consumers avoid late payment fees.
- Automatically transferring a small percentage of a loan disbursement into a consumer’s savings account to reduce future dependence on credit.

EXAMPLES of applying this principle to SAVINGS PRODUCTS are:

- Protecting funds on prepaid card savings accounts via full FDIC or NCUA pass-through insurance.
- Establishing transparent fee structures that do not erode assets over time.
- Setting clear parameters around withdrawals that enable customers to access funds while still promoting proactive savings.
- Encouraging goal-specific savings accounts.
Principle #3 – Promote Success: Drive Positive Consumer Behavior through Smart Design and Communication

Consumers are empowered to make wise money choices via smart product design and guidance that is relevant to their specific concerns and financial situations, coincides in a timely fashion with key life events or decisions, and is immediately actionable.

PRACTICES – Providers who achieve this goal will:
- Use their communications to help their customers monitor and control their behaviors, including identifying problematic usage patterns and prompting behavioral change.
- Leverage technology to deliver real-time access and important account information, lower delivery costs, and achieve scale.
- Design products that incorporate “defaults” or “nudges” to increase the likelihood that consumers will make good choices.
- Align their interests with customers’ interests by responsibly providing incentives for cost-effective consumption and minimizing costly consumer behavior.

EXAMPLES of applying this principle to TRANSACTION PRODUCTS are:
- Enabling consumers to set their own predefined spending limits.
- Sending text messages, such as transaction alerts and balance checks, to help consumers easily manage spending.
- Providing real-time messaging to consumers when they make a suboptimal choice such as withdrawing funds from an out-of-network ATM when an in-network ATM is nearby.

EXAMPLES of applying this principle to CREDIT PRODUCTS are:
- Allowing flexibility in setting repayment schedules that, for instance, match paycheck schedules.
- Providing borrowers with specific information about their credit score and tips for improving scores.
- Clearly illustrating the impact of compound interest, showing borrowers how long repayment will take given their current payment behavior.
- Providing meaningful, positive incentives or rewards for consistent, on-time loan payments.

EXAMPLES of applying this principle to SAVINGS PRODUCTS are:
- Delivering customized messages that directly connect to consumers’ savings goals (homeownership, education, vacation, etc.).
- Incorporating default settings into savings products that nudge consumers toward automatic savings from paychecks or linked transactional accounts.
- Using timely communications to remind consumers about the importance of saving or about goals they have set.
Principle #4 – Create Opportunity: Provide Options for Upward Mobility

Consumers have appropriate options that create opportunities for increased financial prosperity, and they are encouraged to pursue those opportunities.

PRACTICES – Providers who achieve this goal will:

• Build long-term customer relationships.
• Support customers in developing a comprehensive understanding of their entire financial picture through education, information, and other tools.
• Develop and track specific measures of customer financial well-being and seek to maximize these measures through their transactions.
• Create safe entry-level services to provide a positive introduction for new customers to important financial concepts or behaviors, and expand the offerings available to them as their needs and capabilities evolve.

EXAMPLES of applying this principle to TRANSACTION PRODUCTS are:

• Linking transaction activity to the accumulation of savings and/or building credit scores.
• Offering fee-reduction incentives for direct deposit.
• Providing a way to track spending in separate, tangible categories that are defined by the user.
• Using graphs and other visual tools to illustrate spending behavior.

EXAMPLES of applying this principle to CREDIT PRODUCTS are:

• Reporting repayment to credit bureaus to help borrowers establish credit scores.
• Supporting first-time borrowers and taking deliberate steps to set them up for success.
• Combining small-dollar loans with savings opportunities, ensuring that borrowers improve their ability to manage future emergencies or cash shortfalls.
• Giving users of secured credit cards a clear path to unsecured borrowing.

EXAMPLES of applying this principle to SAVINGS PRODUCTS are:

• Systematically connecting savings opportunities to budgeting tools, as well as to transacting or borrowing activities.
• Helping consumers progress toward longer-term savings goals by creating savings opportunities for tax refunds/credits.
• Enabling consumers to build savings toward a particular longer-term purchase, and providing regular inspirational reminders and/or creative incentives.
A Call to Action

How do we take the Compass Principles’ vision from white paper to reality?

During the “feedback phase,” we gathered and incorporated your insightful, experienced-based responses to be sure that the Compass Principles reflect the best thinking in the marketplace. Now, to inspire action, CFSI is entering a new “action phase,” beginning with the development of leaders and tools based on the Compass Principles framework.

Through our Compass Champions program, CFSI will partner with select entities that make public commitments to specific, measurable, high-impact initiatives that demonstrate application and adoption of the Compass Principles. Compass Champions will invest resources to support the commitment, share progress and insights, and provide a testing ground for the Compass Principles framework to evaluate what works and to help CFSI develop tools for the industry.

CFSI is also working with other experts to develop targeted tools that can provide more specific, actionable guidance to companies striving to apply the Compass Principles in the design and delivery of high-quality financial products. Each tool will be tailored to an industry, a product, or a business function.

The insights gained from working with the Compass Champions and from developing tools will inform our strategies to encourage broader marketplace adoption. We believe that our work to develop leaders and tools will help us better understand how to make the Compass Principles framework core to a company’s competitive advantage. It will also inform longer-term steps about what incentives, metrics, or systems will most effectively motivate a broad range of companies to better align their products with the Compass Principles.

Today, millions of people in our country are struggling. Many households lack sufficient access to quality, affordable financial services to successfully manage their money in the short term and to build savings and assets over the longer term. At the same time, there is real concern from customers, employees, the media, and regulators about the value that financial services providers deliver.

The financial services marketplace has an important opportunity to define what the industry can do to make people’s lives better. The Compass Principles are a first step toward a future in which financial services actively contribute to making people’s lives better, and deliver sustainable value to all consumers and providers.

Join CFSI in guiding excellence in financial services through the Compass Principles.
About CFSI:
The Center for Financial Services Innovation (CFSI) is the nation’s leading authority on financial services for underserved consumers. Through insights gained by producing original research; promoting cross sector collaboration; advising organizations and companies by offering specialized consulting services; shaping public policy; and investing in nonprofit organizations and start-ups, CFSI delivers a deeply interconnected suite of services benefiting underserved consumers. Since 2004, CFSI has worked with leaders and innovators in the business, government and nonprofit sectors to transform the financial services landscape. For more on CFSI, go to www.cfsinnovation.com.