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BankThink Banks should measure their social impact

By Elena Botella

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Nearly every major American bank has a lofty set of values and principles. Wells Fargo's starts with do "what's right for customers." Bank of America's says to "act responsibly."Capital One, where I worked for five years, emphasized the mantra "excellence and do the right thing: it's not a trade-off."

And yet, many Americans still distrust the banking industry. After five years of slow improvement in public perception since the financial crisis, American Banker reported in January of this year that banks were backsliding again, with only 52% of consumers trusting their banks to do the right thing, down from 66% a year earlier.

Why then is there such a big disconnect between how Americans see their banks and how banks see themselves?

To start, banks need to start closely scrutinizing the impact of their choices on the lives of their consumers and on the communities they serve.

While banks play a critical role in helping people navigate a challenging economy, for many Americans, existing financial products can do more harm than good. In fact, a recent NerdWallet study found that 86% of Americans who have been in credit card debt regret it.

The industry's lack of rigor around measuring its social consequences explains how one fintech can say they're being socially responsible for issuing high-interest rate, short-term loans as an alternative to payday lenders, and how another bank can say it's being socially responsible precisely because it forgoes that type of lending.

Every choice big and small made by every bank, lender and fintech needs to be approached through the lens of "How will this choice impact people's lives?" Banks need to start systematically collecting the evidence to answer those questions in a meaningful way.

If you wouldn't accept hand-waving, ungrounded claims that a major investment or product launch would be profitable, you also shouldn't accept platitudes and assumptions that your business model really helps customers succeed. The simplest approach is to look at the overall cohort of consumers who have used a product — both still-open accounts as well as the customers who have closed or defaulted — and ask, "Did this product make your life better?" A credit card can either be a helpful bridge for a family with a short-term need, or it cause someone to pay multiple times the sticker price in interest for a purchase they'll later wish they had skipped. A late fee can either be the incentive a customer needs to pay on time to protect their credit score, or it can compound hardship for someone who is truly broke. Debit or credit card rewards can either be a little extra cash in a consumer's pocket, or a subconscious temptation for a consumer to spend money they don't have. Bankers that don't use data to sort through these questions are likely to tell themselves stories where they're always the protagonist.

Here, the financial sector has much to learn from counterparts in the nonprofit sector, which has undergone a revolution in social impact measurement, asking and answering hard questions about what works and what doesn't to alleviate poverty and improve lives. Many banks boast that they run hundreds or thousands of tests a year — but those tests need to measure not only conversion rates or profitability, but also customer impact. Businesses that routinely run experiments can combine holistic, subjective measures of well-being, like asking a customer about their overall perception of their finances, with objective data points like a customer's ne -worth, debt load or credit score, to determine what products and experiences are best suited to help American consumers build financial resilience and achieve their goals.

The Center for Financial Service Innovation's financial health toolkit, and the Consumer Financial Protection Bureau's financial well-being scale are both great starting points for practitioners ready to begin measurement programs.

If a manufacturer dumps her chemical byproducts in a local stream without checking for pollutants, the fact that she never examined the contents of the barrel doesn't let her off the hook for the damage she caused. Similarly, bankers can't be ethical by just having good intentions, they also have to insist on understanding the consequences of their choices.

Board members and investors will play a critical role in demanding more and better information. If America's largest banks invest just 5% of the energy they've put into building better risk models and financial forecasts into measuring the consequences of their choices for customers, who knows what social change is possible.

While it is hard to define what makes a customer "better off" or "worse off," many definitions and scorecards can be insightful if applied consistently and rigorously. That said, existing customer satisfaction and customer advocacy metrics are clearly insufficient. The industry can't just be asking customers, "Do you like me?" — it should be asking them about their lives and their concerns.

Regulators need to encourage banks to engage in measurement and deep scrutiny of their own practices — knowing that what banks turn up will not always be flattering, but that the entities willing to air their dirty laundry deserve more sympathy than those who likely have the same problems hidden away in a hamper under the bed.

Critically, bankers can't outsource their moral decision-making to algorithms and to machine learning. As testing and data science become increasingly sophisticated, it will be tempting to tell our computers "find me the most profitable strategy" and then go do it. Yet in doing so, we run the risk that the strategies that are created by the computer scripts and code are strategies that, if a human being named them out loud in words, would be quickly identified as exploitative and predatory.

Every day, bankers go to work and make decisions that impact hundreds of millions of people. Our country is increasingly beset by cynicism and division. Financial institutions need to help everyday people regain opportunities to improve their lot, or watch as the American dream slips out of reach for an increasing number of families. It's time for the financial sector to live up to the highest aspirations of its corporate mission statements, and make better use of data to help American consumers succeed.

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