

Stanford SOCIAL INNOVATION^{Review}

Field Report
Frugal Solutions
By Navi Radjou

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www.ssir.org
Email: editor@ssir.org

FIELD REPORT

↓ Companies that participate in the Financial Solutions Lab's Accelerator receive expert advice from partners.

Frugal Solutions

A pioneering initiative is showing how traditional financial organizations can cocreate with nonprofits and entrepreneurs to improve the financial health of all Americans.

BY NAVI RADJOU

In 2014, five years after the Great Recession ended, more than half of American adults were facing serious financial hardship: 58 percent struggled to cover expenses and pay bills, and 45 percent did not save any portion of their income. Part of this insecurity stemmed from income volatility in nearly one-third of US households, as reported by the 2013 Federal Reserve Survey of Household Economics and Decisionmaking.

In response to this crisis, Financial Health Network (FHN), a nonprofit financial services consultancy formerly known as the Center for Financial Services Innovation, partnered with JPMorgan Chase in 2014 to launch the Financial Solutions Lab (FSL), an initiative that helps cross-sector collaborations develop new strategies, products, and services to improve Americans' financial health.

"Most Americans are not financially healthy, and there was a need for innovative solutions that could help Americans manage expenses, navigate financial shocks, and plan for the future," says FHN president and CEO Jennifer Tescher. "The Financial Solutions Lab was founded to find and support innovators who were committed to building solutions that address the financial health needs, particularly for low- to moderate-income individuals and underserved communities."

JPMorgan Chase, which has provided \$50 million to FSL, decided to support the lab because it wanted to learn how new technologies could lower the cost of creating and deploying affordable and profitable financial solutions at scale.

"In recognition of the potential of technology to deliver scalable solutions that promote financial health, we teamed up with the

Financial Health Network to launch FSL," explains Colleen Briggs, JPMorgan Chase's head of community development and financial health, who oversees the bank's strategic partnership with FSL. "We needed a cross-sector platform to realize that potential."

JPMorgan Chase and FHN co-developed a unique operating model for the lab. FSL brings capital, expertise in financial services, and national exposure to entrepreneurs building scalable products designed to address the biggest financial problems facing Americans. FHN's 2020 US Financial Health Pulse study, which tracks the changes in Americans' financial health year over year, reports that more than two-thirds of Americans—167 million people—are not financially healthy. (FHN defines people as financially healthy if they "are spending, saving, borrowing, and planning in a way that will allow them to be resilient and pursue opportunities over time.")

The innovations that FSL supports are designed to support not only low-income and

minority groups but also full-time employees, gig-economy workers, and college students who face financial duress as a result of the COVID-19 pandemic and the recession.

THREE CORE PRINCIPLES

FSL runs three complementary programs: the Accelerator, one of the few fintech accelerators in the United States focused on financial health; the Exchange, a meeting place for interested nonprofit and fintech providers to explore collaboration and swap insights on how to build effective partnerships; and the Collaborative, which explores innovative solutions to unmet financial health needs.

FSL finds candidates for its Accelerator program by hosting an annual challenge to identify solutions to a specific financial problem and inviting start-ups and nonprofits to apply to the program. FSL reviews each applicant's commitment to diversity, equity, and inclusion principles; the viability of the proposed product's solution; and the product's scalability. The selected organizations—the number of which ranges between four and seven per year—have received up to \$250,000 in capital, professional services assistance from industry leaders, and mentorship from FHN's and FSL's partners.

The 2020 cohort worked to enhance the financial health of workers and students



NAVI RADJOU is an innovation and leadership scholar and advisor based in New York. He is coauthor of *Frugal Innovation: How to Do More with Less*.

affected by COVID-19, while the challenge for the 2021 cohort is to help fragile communities improve their financial resilience and long-term stability in the midst of COVID-19.

Fintech start-ups and nonprofits choose FSL because of its social purpose. “Institutionalized empathy is FSL’s biggest differentiating advantage,” explains Hannah Calhoun, FHN’s vice president of innovation, who oversees FSL. “When we select fintechs to work with us, we look for founders who share our purpose and are genuinely motivated to improve the lives of the financially underserved,” she adds.

Some of the FSL-supported companies that have built solutions to boost the financial health of all Americans include HoneyBee, a certified B Corporation that enables employees, regardless of credit history, to access an extra week’s pay at any time to deal with an emergency; Alice, an AI start-up funded by Melinda Gates that allows employees to automate pretax spending, thus maximizing paychecks and minimizing paperwork; and Summer, another B Corporation that helps student-loan borrowers save by enrolling them in the most cost-effective repayment and forgiveness programs.

“Through the Financial Solutions Lab’s partners,” HoneyBee cofounder Ennie Lim says, “we gained access to domain and regulatory expertise needed to execute our mission focused on workforce financial health.”

FSL shows these entrepreneurs how to apply the three core principles of frugal innovation—the resourceful art of developing high-impact solutions faster with limited means—to create and scale their products and maximize their impact.

The first principle, “engage and iterate,” uses FHN’s experiential learning program called FinX to help innovators experience their customers’ financial duress. The FinX participants go through multiple real-life challenges faced by people with financial difficulties on a daily basis, like having to walk miles to cash a check and pay a hefty fee for doing it. Equipped with these insights, entrepreneurs then rapidly experiment with multiple frugal solutions with customers

and use their constant feedback to refine their business model and product or service.

Rather than reinvent the wheel or invest in redundant resources, FSL’s second principle is to “flex all assets,” in which the fintechs fully leverage all assets readily available in FSL’s ecosystem, such as domain expertise, data, and customer access. These fintechs can co-design new products with large-scale nonprofits that are part of FSL’s Exchange program and gain access to a vast user base, thus saving in customer acquisition costs.

The third principle, “shaping frugal customer behavior,” encourages the FSL-backed entrepreneurs to design solutions that draw on behavioral economics and AI to gently nudge consumers toward healthier and more sustainable financial behavior.

Since 2014, more than 250 organizations have participated in FSL’s three programs. These companies have reached more than five million low- to moderate-income consumers—and over 10 million consumers in total—and helped individuals save more than \$2 billion to date.

PURPOSE IN ENGAGEMENT

JPMorgan Chase gets a lot out of its investment of domain expertise and mentorship in FSL and its fintech enterprises and nonprofits.

“By working with FSL and its start-ups, our bankers deepen their understanding of what kinds of new products, business models, and partnerships could improve the financial health of all Americans,” Briggs explains.

Briggs says that brick-and-mortar banks like JPMorgan Chase have learned three valuable lessons from these relationships. First, new technologies can significantly drive down the cost of creating and delivering affordable and profitable financial solutions at scale. Second, user-friendly technologies provide actionable insights to customers, empowering them to make wise decisions to more easily improve their financial health. And third, a hybrid high-tech/high-touch customer engagement model is viable and can be used to serve the 167 million financially challenged Americans profitably and at scale.

In June 2020, Prudential Financial joined FSL with a \$10 million commitment over the next five years. Aware of growing economic inequality, the insurance company is partnering with organizations across sectors to find new ways to help put financially vulnerable Americans on the path to financial wellness.

“Through cross-sector collaboration with initiatives like FSL, we can find new ways to help put financially vulnerable people on the path to financial wellness with the necessary tools, support, and capital they need to get on a path to economic and social mobility,” says Sarah Keh, vice president of inclusive solutions at Prudential Financial, “and in doing so we advance Prudential’s mission of solving the financial challenges of our changing world.”

Since 2014, FSL has faced several challenges in scaling. For instance, some fintechs supported by FSL developed effective technology solutions, but their market adoption was limited because these innovators didn’t build strategic partnerships with grassroots organizations that work closely with low- and moderate-income populations. During COVID-19, FSL faced the logistical challenge of running a cohort and community-building projects virtually. It had to quickly shift its budget to affected areas as well as widen, rather than deepen, exposure and programming.

The pandemic has also highlighted the continued lack of gender and racial diversity among founders and leadership teams of fintechs. In coming years, FSL is focused on recruiting more women and people of color to join its Accelerator cohorts. When the pool of innovators is more diverse, the range of possible solutions becomes both more diverse and more effective.

The entire financial services sector must rise to the challenge of rebuilding America. Big banks, nonprofits, and fintech firms all need to adopt frugal innovation and forge partnerships to co-develop affordable, tech-powered solutions that improve the financial health for all Americans. In doing so, they can cocreate an inclusive economy. ■