MetLife Foundation

UNCDF Unlocking Public and Private Finance for the Poor

Delivering Financial Health Globally

A collection of insights, approaches and recommendations

i3 PROGRAM Innovate Implement Impact

Acknowledgements

The UN Secretary General established the Task Force on Digital Financing of the Sustainable Development Goals (SDGs) as part of his broader Roadmap for Financing the 2030 Agenda for Sustainable Development: 2019-2021.

'People's Money: Harnessing Digitalization to Finance a Sustainable Future' is the Task Force's final report. The report outlined the need to focus on outcomes and make the tools of poverty reduction broader than is the current focus. This white paper was initiated to drive discussions among the global community towards improving the approach in order to create positive impact on individuals and households, thereby realising the SDGs at-large.

This white paper has been prepared with support from MetLife Foundation and has drawn on existing research and extensive engagement with the financial community, experts and civil society groups. It is the result of a comprehensive review of over 60 publications related to financial health and inclusion, and expert interviews with 20+ leading organisations in the inclusive finance sector.

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Executive Summary

In the last two decades, substantial progress has been made towards advancing financial inclusion for the world's most vulnerable people. Since 2011, 1.2 billion people across the globe have obtained a financial account. Most governments now have a financial inclusion strategy and deliver government payments through the formal financial system. Youth, women and other historically marginalised groups are accessing and using financial products and services on a more regular basis.

That said, the COVID-19 pandemic has deeply exposed the weakness of our economic and social systems. People all over the world, especially low-and moderate-income (LMI) people are losing their jobs and seeing their income and assets erode. The pandemic has laid bare the financial vulnerability of vast segments of the global population. At the start of this crisis, the majority of the population in many countries were financially ill-prepared to weather a prolonged income shock. According to a study that mapped global financial resilience in 2017, more than two-thirds of adults in Kenya, Vietnam, Greece, Chile, Colombia and Bangladesh would not be able to cover basic needs for three months using just their savings or by selling assets in the event they lost their incomes[1].

In light of these vulnerabilities, we need an approach that examines and advances the well-being of individuals and households. Financial health is an emerging topic of research, advocacy and practice that aims to understand, measure and ultimately improve the part of wellbeing that is associated with the financial life of individuals that we serve.

Financial health is a comprehensive approach, and this makes it an effective tool to address the Sustainable development Goals (SDGs). Poverty reduction (SDG 1) is a key objective that motivates government and private sector financing for financial inclusion interventions globally. Examples could include easier or more affordable access to loans that support the income growth or diversification that enables people to overcome poverty. However, to ensure a sustainable impact, the broader lens of financial health is needed because it focuses on preparedness and building resilience as well the big picture, such as long-term financial goals. For example, improving the ability for people to cope with unexpected crises, so they don't reduce essential spending or resort to negative coping strategies, is a key component of financial health, one that is connected to a wider set of policies beyond access to financial services (for example, social insurance), in a range of sectors (for example, healthcare or agriculture) and for various population segments.

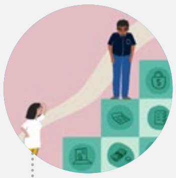
This white paper aims to create a baseline from various discussions on financial health and builds an evidence base from the work done by institutions and individuals globally. The paper explores the constituents and drivers of financial health, how to measure it and the role of various stakeholders. It also serves as an effort towards a common and shared understanding on the subject, while aiming to build a coalition of public, government, and private sector actors who could be willing partners in collective learning and action towards enhancing financial health globally.

1. Financial Sector Deepening Kenya. (2020). *The prevalence and drivers of financial resilience among adults: Evidence from the Global Findex. Kenya: Gubbins, P.*

Key Findings

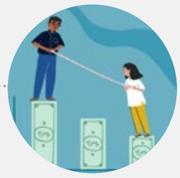
A broader approach

Financial health is not the next panacea but offers a larger, more comprehensive perspective to define, create and measure impact. Financial health is an improved approach, considering the tools for poverty reduction and economic welfare, for many reasons.



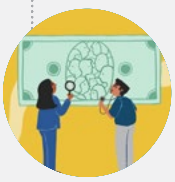
The Building Blocks

Financial health is a layered subject, and a distinction must be made between the outcomes of financial health and the drivers of those outcomes.



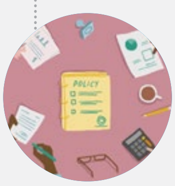
Measuring Financial Health

The measurement of financial health offers a nuanced alternative to the binary measure of financial inclusion, offering intermediate outcomes to a realization of the SDGs - a policy priority for governments across the world.



Financial Service Providers

Financial providers can continue to achieve greater growth outcomes and maximize long-term shareholder value by putting customers' financial health at the centre.



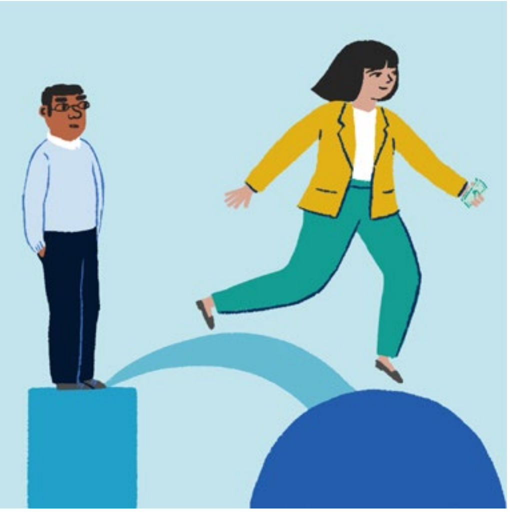
Policymakers and Regulators

Governments understand that the financial health of individuals impacts their capacity to be productive citizens. Yet the practice of creating policies that target financial health is still nascent.

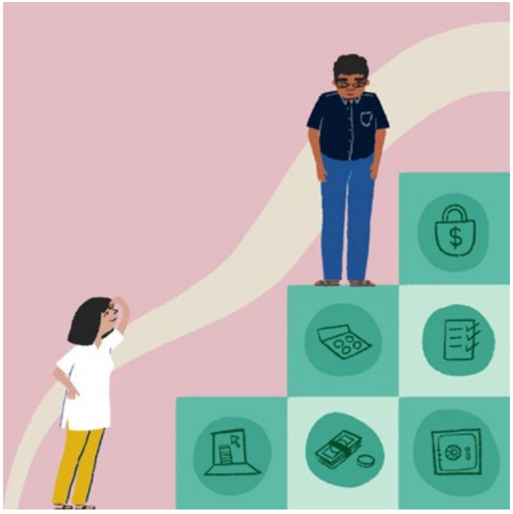
Figure 1: Key findings

Financial health is not the next panacea but offers a larger, more comprehensive perspective to define, create and measure impact. By definition, financial health encompasses four important aspects of an individual's financial life: **financial security, financial resilience, financial control and financial freedom**. It is state in which an individual can meet current needs, absorb financial shocks, and pursue financial goals. Financially healthy individuals also feel secure about their finances. The following captures these dimensions of financial health:

- **Financial security** is the ability to meet short-term commitments.
- **Financial resilience** is the ability to cope with unexpected or adverse events.
- **Financial control** is being confident of one's finances, now and in the future.
- **Financial freedom** is the ability to meet long-term financial goals and desires.



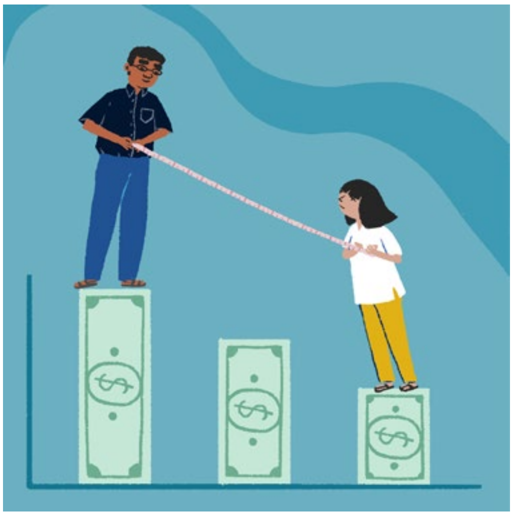
Financial health is an improved approach, considering the tools for poverty reduction and economic welfare, for many reasons. For one, financial health is user-centric in that it accounts for both objective and subjective ways to define impact, embodying the principle that impact can mean different things to different people and is best defined by individuals themselves. Financial health also measures what matters. While transactional indicators measured under the financial inclusion approach remain relevant, the perceptive indicators of financial health such as the ability to come up with liquid funds in a defined time frame offer a more nuanced view of an individual's financial life. Financial health also recognizes that a whole range of factors are at play as it relates to people's financial lives, from individual characteristics such as income and assets to environmental factors such as social capital and public infrastructure.



Financial health is a layered subject, and a distinction must be made between the outcomes of financial health and the drivers of those outcomes. The outcomes of financial health are rooted in its definition, encompassing financial security, resilience, control and freedom. The determinants of financial health span a range of individual and environmental factors such as income, assets, financial habits such as saving and spending, social capital and the socio-economic environment. These factors are diverse and influence each other as well as financial health outcomes in myriad combinations. For example, two individuals earning the same income and with the same amount of wealth may have different financial health statuses owing to their financial habits and the socio-economic environment they belong to. This makes financial health a complex and nuanced concept but also one focused on the outcomes we'd like to see manifested for end customers.

Financial providers can continue to achieve greater growth outcomes and maximize long-term shareholder value by putting customers' financial health at the centre. In this white paper (section 4), we provide a high-level but practical roadmap that financial providers can adopt and customize to their context as they undertake their unique journey in becoming more customer-centric in a fast-paced environment. The roadmap provides key considerations for financial providers across four strategic pillars: 1) financial health as a strategic imperative; 2) reprioritising the metrics and measurement model; 3) aligning technology, products, processes and partnerships to serve a common purpose, and 4) deepening customer relationships and building customer trust.

Governments understand that the financial health of individuals impacts their capacity to be productive citizens. Yet the practice of creating policies that target financial health is still nascent. Most policymakers and regulators focus broadly on financial sector stability and consumer protection, and while these are necessary, they are insufficient preconditions for financial health. We strongly believe there is a synergy between a financially healthy society and financial sector stability. This synergy can be sought by promoting the right kind of policies, beginning with making measurement the central attribute of the enabling environment of financial health and tracking outcomes that can translate to industry level or national targets. Governments also have an opportunity to define expectations from the innovation community and shape the right kind of innovation environment. Additionally, empowering consumer groups or engaging with consumers directly has demonstrated consumers' capacity to advocate for their needs and ensure service providers act responsibly.



The measurement of financial health offers a nuanced alternative to the binary measure of financial inclusion, offering intermediate outcomes to a realization of the SDGs - a policy priority for governments across the world. Several frameworks to measure financial health have been tried and tested. Some frameworks rely on self-reported financial health status and behaviours, while others also incorporate observed financial conditions. Some also focus on the subjective dimensions of financial health, such as people's perceptions of their financial health and their confidence in their financial futures.

While each of these frameworks is helpful in its own right, some key considerations for the measurement of financial health include attention to contextual factors such as social capital, clarity on what is being measured (outcomes versus determinants) and the type of data being used (demand or supply-side).

By measuring the financial health of customers, we could inform appropriate public and private sector action that advances the financial health of people, particularly that of marginalised groups, and incentivizes the market to act in favour of customer financial health.

It is important to note that financial health and/or well-being are umbrella terms that cover a range of concepts associated with economic welfare and poverty reduction. Typologies aside, the term financial health fundamentally represents impact outcomes for end customers such as meeting daily commitments, resilience and growth.

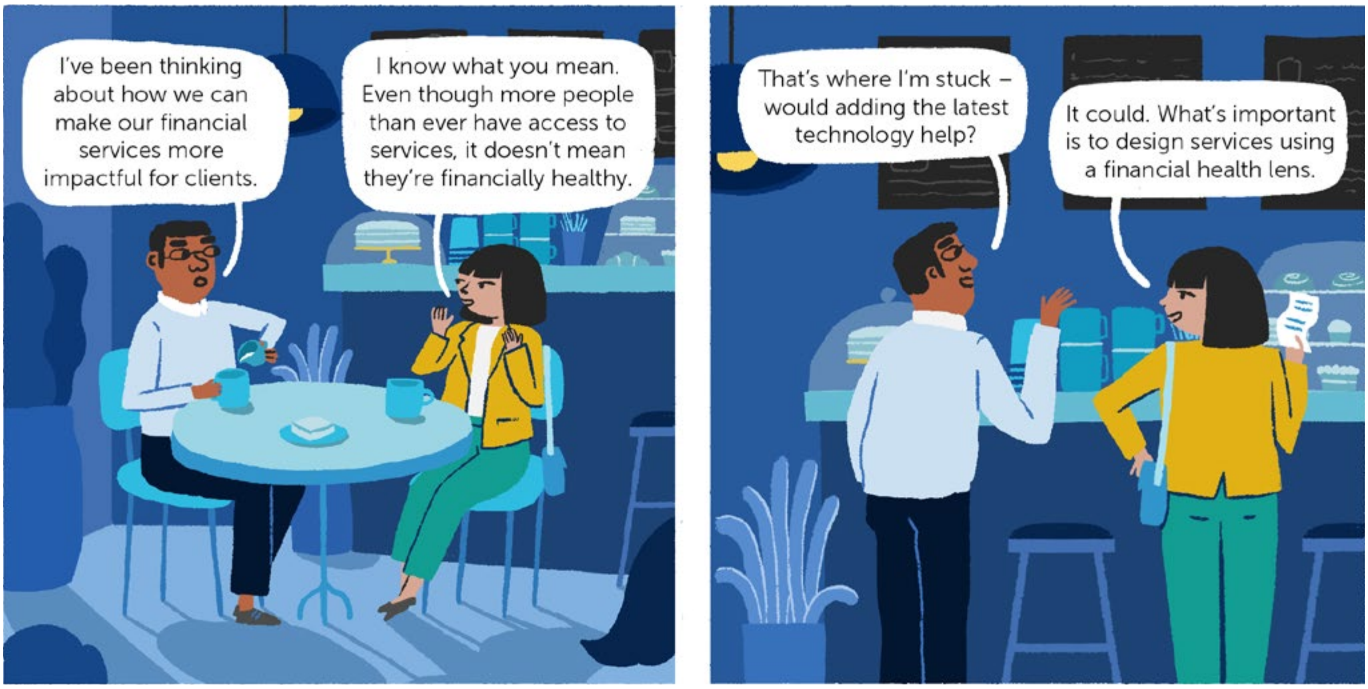
Financial health is not an end in itself. It is an enabler that allows people, societies, and markets to be resilient and innovative. This means that both public and private market actors need to work in concert to achieve financial health outcomes which in turn enable the realization of the Sustainable Development Goals (SDGs).

We hope the insights in this report will be used by the private sector, policymakers and governments to design and deliver interventions that advance the financial health of individuals and households.

Section 1

Financial Health

A broader approach to define, create and measure impact



This section unpacks the relationship between financial health and financial inclusion and offers perspectives on why financial health might be a better approach. We take stock of how far we have come with financial inclusion and where we have fallen short, reflecting on the concept of financial health as a possible answer to some of financial inclusion's limitations.

Is financial inclusion enough?

Financial inclusion is often defined as access to and usage of affordable and quality financial products. It has been a focus of governments, central banks, public and private financial institutions, multilaterals, and non-governmental organisations for a couple of decades. As it brought the benefits of payment systems, savings and other services to customers, the global community made a core assumption that usage of these formal financial services would enable people to grow their resources and climb out of poverty.

In terms of inclusion, we have seen significant progress. Since 2011, some 1.2 billion people have obtained a basic bank account[2]. The mobile money industry transacts US$ 2 billion per day, with over a million active accounts[3]. Most governments now have a financial inclusion strategy and deliver government payments through a formal financial system. India, for example, enabled 310 million new bank accounts as part of a massive financial inclusion campaign that began in 2014.[4] Youth, women and other historically marginalised groups are increasingly using savings and payments, and other financial products and services, such as credit and remittances, through digital channels. Upon a closer look, however, it appears that most of this success comes from 'first-level financial services,' such as making and receiving payments and having a savings account. These might be 'better than cash,' but not

2. The Global Findex Database, 2017
3. https://www.gsma.com/sotir/wp-content/uploads/2020/03/GSMA-State-of-the-Industry-Report-on-Mobile-Money-2019-Full-Report.pdf
4. As part of the Pradhan Mantri Jan Dan Yojana (PMJDY), a government-led initiative. See: https://www.crisil.com/content/dam/crisil/crisil-foundation/generic-pdf/crisil-inclusix-financial-inclusion-surges-driven-by-Jan-Dhan-yojana.pdf

necessarily creating the preconditions for building financial resilience or wealth. There is an emerging body of evidence that suggests mixed results at best in terms of the impact of financial inclusion on the lives of LMI people. For example, a recent review by CGAP showcased that while access to bank accounts improved savings among farmers in Malawi, the same exercise in other countries did not find similar results.[5] India, for all its progress in financial inclusion reported the highest dormancy rate in account usage worldwide – 48%.[6] Digital credit also faltered in that although access is widespread due to the ubiquity of mobile phones, some undesirable consequences of this progress include increased short-term or "payday" lending, sports betting and unplanned spending.

Another argument around financial inclusion relates to its insufficiency. For example, a review has indicated that although financial inclusion has diverse positive impacts, they are too small to count.[7] In addition, financial inclusion has also failed to reach all people equally. Some consumer segments are lagging significantly behind. Globally, the number of men with financial accounts surpasses the number of women with financial accounts by 8%. Youth have limited access to financial services.[8] Micro, small and medium enterprises (MSMEs) experience staggering credit gaps— 65 million formal MSMEs in 128 countries are credit-constrained.[9]

Financially included but not financially healthy

A few studies have examined the correlation between financial inclusion and financial health, and the results have not been encouraging. A study by the U.S.-focused Financial Health Network conducted in 2020 shows that only 33% of Americans are financially healthy despite near-universal financial inclusion.[10] Similarly, while financial inclusion in Kenya increased from 75% to 83% between 2016 and 2019, the percentage of adults deemed financially healthy declined from 39% to 22% in the same period.[11] Gallup's study indicated that there is no clear relationship between account ownership and financial security in low- and middle-income countries.[12]

In the development community, there is a general consensus that the ultimate objective of financial inclusion is to improve financial lives through creating financial security and increasing control over finances. Yet we must pause and reflect on what we mean by "improving financial lives."

Financial health as an approach offers a way forward. By definition, financial health encompasses four important aspects of an individual's financial life: financial security, financial resilience, financial control and financial freedom.[13] It is state in which an individual can meet current needs, absorb financial shocks, and pursue financial goals. Financially healthy individuals also feel secure about their finances. The following captures these dimensions of financial health:

5. https://www.cgap.org/blog/looking-beyond-average-impact-financial-inclusion
6. The Global Findex Database, 2017
7. https://campbellcollaboration.org/better-evidence/impact-of-financial-inclusion-in-low-and-middle-income-countries.html
8. The Global Findex Database, 2017
9. https://www.ifc.org/wps/wcm/connect/03522e90-a13d-4a02-87cd-9ee9a297b311/121264-WP-PUBLIC-MSMEReportFINAL.pdf?MOD=AJPERES&CVID=m5SwAQA
10. US Financial Health Pulse, Financial Health Network, 2020
11. Inclusive Finance: Headline Findings from Finaccess 2019, FSD Kenya, 2019
12. Gallup's Global Financial Health Study, 2018
13. This resonates with UNCDF's own experience from operations in over 20 countries in the past decade. It is also supported by the findings of scores of organizations that field-tested the concept of financial health in varied settings

- **Financial security** is the ability to meet short-term commitments.
- **Financial resilience** is the ability to cope with unexpected or adverse events.
- **Financial control** is being confident of one's finances, now and in the future.
- **Financial freedom** is the ability to meet long-term financial goals and desires.[14]

Let's look at this definition closely. The first part is a measure of an individual's financial security, typified by the ability to navigate one's daily commitments, now and in the expected future. It also includes the ability to respond to and recover from unexpected shocks, or financial resilience.

The second part of this definition is an indication of whether individuals feel in control over their finances, and therefore is more perception-based. Individuals may have differing perceptions of their financial health, regardless of objective financial conditions, based on their subjective evaluation or on anticipated changes or anxieties about their future income and expense streams.

The third part of the definition emphasizes financial freedom, the ability of going beyond the basic needs of food, shelter, etc. to meet one's financial goals and afford the things one enjoys. In a sense, financial freedom can be considered a step-up from financial security.

Financial health: broadening the approach

Financial health puts the spotlight on the end consumer and how his/her life can be changed for the better. It is an improved approach over financial inclusion as it enables the following:

1 **Defines impact in ways that are more customer-centric**: financial health accounts for both objective and subjective ways to define impact, embodying the principle that impact can mean different things to different people and is best defined by individuals themselves. Financial security as outlined above is predominantly an objective measure whereas financial control and freedom are more subjective measures.[15] For example, an individual is financially secure if they are able to live with a level of preparedness for the future on a daily basis. Financial freedom is a step up from financial security, when an individual is able to go beyond financial security and enjoy life on their terms.

2 **Measures what matters**: conventional data on number of registered and active accounts and transaction volumes and values will remain crucial to understanding how financial products and services can improve – or detract from a clear understanding of financial health. However, with a range of perceptive indicators such as ability to come up with liquid funds in a finite time period to having money left over after essential expenses, financial health offers a more nuanced approach to measuring the impact of the products and services offered by financial service providers. In Section 3, we explore the measurement of financial health in more detail.

14. Drawing from definitions by Consumer Financial Protection Bureau (2017); Muir et al (2017); Kempson et al (2017); Melbourne Institute and Commonwealth Bank of Australia (2018).
15. Financial security can also be subjective as we discuss in Section 3. Most individuals could differ on whether they are financially secure, all else being equal. However, in comparison with financial freedom, financial security has more objective tones.

3

Understanding of context: in contrast to financial inclusion, financial health is a multi-faceted concept that offers a more holistic picture of customer outcomes and the associated drivers. For example, financial health recognizes that a whole range of factors are at play. From individual characteristics, such as financial capability and psychological biases, to broader socio-economic factors like gender and social norms, availability of work and social safety nets—these all influence the financial well-being or financial health of an individual. This all-encompassing view of the underlying context is imperative to understanding the results we indicated above, such as non-usage and insufficient and varying impacts.

4

Understanding of financial behaviour: recent research has established direct links between financial behaviours and financial health outcomes.[16] For example, active saving is a financial behaviour essential to financial resilience. Moderate spending is critical to the effective day-to-day management of finances. It is important to note that individual behaviours, however, are influenced by the socio-economic environment one inhabits as well as the psychological biases that influence most of us. This is not to say that these individual choices are right or wrong, but that an awareness of biases underlying these choices helps us design products and processes in financial health-centric ways. A fitting example is Common Cents Lab that factors in psychological biases in the design of financial products and services.

What does this mean for financial inclusion?

For financial inclusion, the outcome is "to be included" – to have access to at least one account, which is being used with some degree of regularity. Financial health seeks to understand how being "included" (or not) impacts the resiliency and opportunities for individuals to meet their goals. Ultimately, we would hope to learn which solutions, in what bundle, works for whom and in what settings.

Financial inclusion is an ongoing pursuit and, in many ways, sets the stage for conditions of financial health. Enabling the use of financial services, as we will see in the next section, drives financial health. However, financial inclusion is the start of a pathway towards better financial outcomes, but it is not the end of the journey. Financial health goes several steps beyond inclusion, towards financial freedom. Financial health therefore, is not the next panacea but offers a larger, more comprehensive perspective to define, create and measure impact.

16. Kempson et al. (2017). *Financial Well-Being. A Conceptual Model and Preliminary Analysis*

Section 2

The Building Blocks of Financial Health

Outcomes and determinants

Financial health is more layered and complex than the relatively straightforward concept of financial inclusion. In this section, we unpack what we mean by financial health and identify its parameters. The following two questions in particular help explain the concept of financial health in more concrete terms:

1. What are financial health outcomes?
2. What are the drivers (or determinants) of financial health outcomes?

The outcomes of financial health are often conflated with its determinants. We must disentangle these components to be clear about what we are aiming for (outcomes) and how we get there (determinants). We follow an hourglass framework to explain financial health determinants and their relationship to financial health outcomes. Determinants are classified as environmental, human and individual, which in various combinations lead to financial health outcomes.

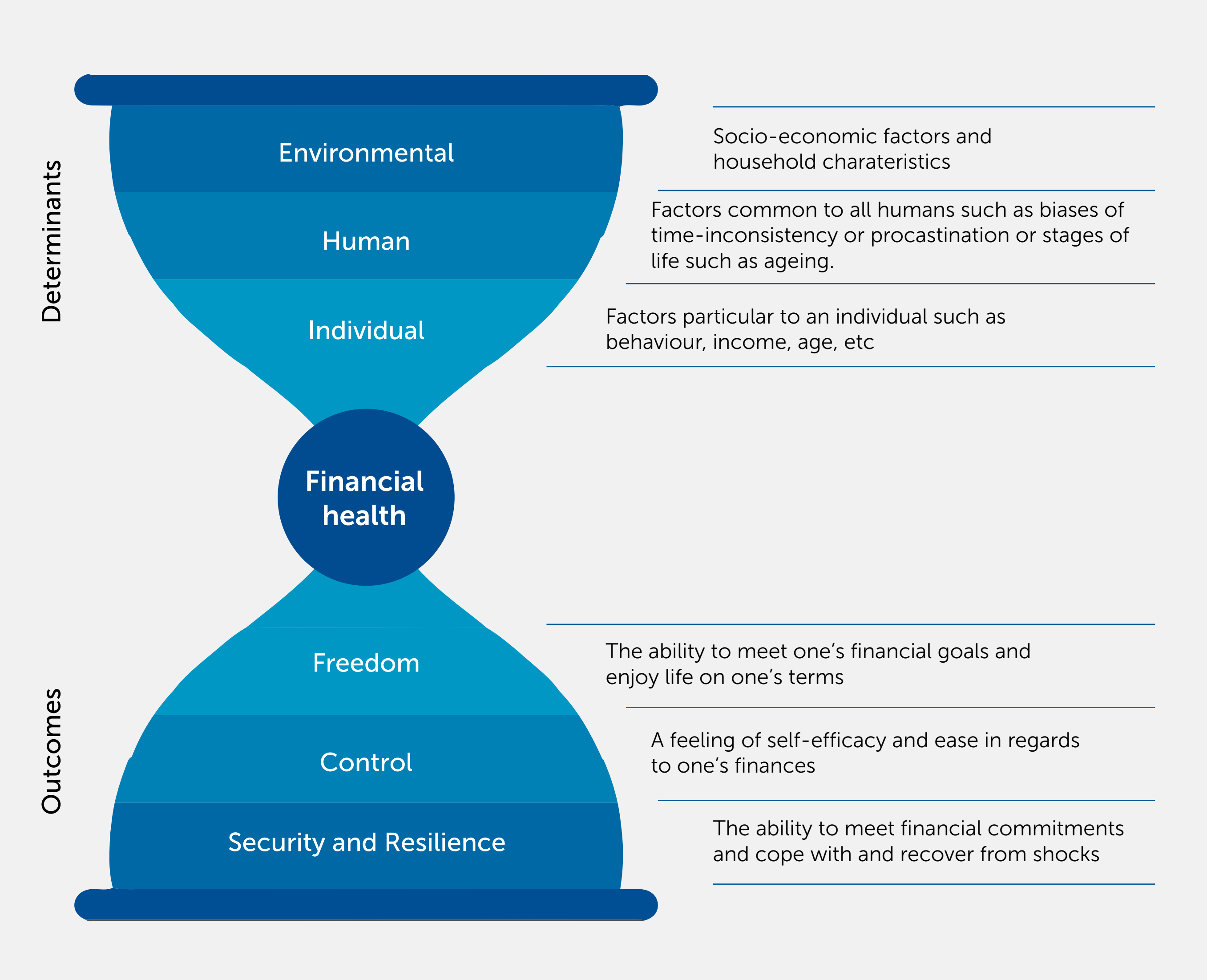


Figure 2: Under the Hood: an hourglass model of financial health outcomes and determinants

Financial health outcomes

In the previous section, we shared a definition of financial health which encapsulates some commonly used characteristics associated with the term (see Annex 1). To recap:

Financial health is a state in which an individual can meet current needs, absorb financial shocks, and pursue financial goals. Financially healthy individuals also feel secure about their finances. The following captures these dimensions of financial health:

- **Financial security** is the ability to meet short-term commitments.
- **Financial resilience** is the ability to cope with unexpected or adverse events.
- **Financial control** is being confident of one's finances, now and in the future.
- **Financial freedom** is the ability to meet long-term financial goals and desires.

It is through these four components of financial health—financial security and resilience, the most universal parameters, financial control and financial freedom—that we hope to enhance financial health for all and achieve the sustainable development goals (SDGs)-particularly ending poverty (SDG 1), which is also the objective of financial inclusion.

Financial security

Financial security is the ability to meet current and ongoing commitments, including basic needs and planned expenses such as food, rent, bills, debt payments, and health care in the short-term. Financial resilience addresses the ability to manage unexpected or adverse events, such as car breakdowns, job loss or sudden health emergencies. This component is often termed as 'financial resilience,' or the ability to respond to and recover from shocks.

The following questions help describe whether or not an individual has succeeded in achieving financial security and resilience:

- Are they able to successfully manage their financial commitments on a day-to-day basis?
- Are they prepared to handle both small emergencies and large shocks?
- Are they able to recover from a shock and reorient their lives after the shock?

Financial control

Some definitions of financial health include the ability to feel in control of one's finances, with no or limited financial distress. Financial control is a subjective measure of financial health because the feeling of 'being in control' or stressing can vary for individuals and households, despite similar financial conditions.

The following questions help describe whether or not an individual has succeeded in achieving financial control:

- Are they confident about their financial situation, presently and looking to the future?
- Do they believe they have the ability to make changes to their financial lives for the better?

Financial freedom

Financial freedom represents a financial condition beyond financial security, and reflects an individual's ability to meet future financial goals and take advantage of opportunities. It is also more subjective than financial security as it emphasizes individual financial goals and things one values.

The following questions help determine whether an individual has reached a state of financial freedom:

- Are they able to stay on track to meet their financial goals, and pursue opportunities?
- Are they able to secure their financial future or demonstrate a forward-looking attitude in regards to their finances?
- After paying off essential expenses and earmarking savings, is sufficient money left over for doing the things they enjoy?

The outcomes of financial health—security and resilience, control and freedom—comprise both objective and subjective elements. Financial security can be construed as a more objective measure whereas financial control and financial freedom are more subjective measures. For example, two individuals may feel a different sense of financial control and/or freedom even though they have similar financial conditions such as the same savings balance or similar types of home ownership. Control and freedom are therefore defined by individuals themselves, and are relative.

Financial health outcomes also reflect progression. A state of financial security and resilience could be correlated with a feeling of financial control and could ultimately lead to financial freedom. Gallup's study, for example, demonstrates the linkages between financial security and financial control, indicating that control could predict financial security. While they define financial security in more objective terms, financial control, in essence, is outlined as a (positive) aggregation of 8 out of 10 subjective questions[17].

Furthermore, a state of financial security and resilience and a feeling of financial control are essential but not sufficient conditions to realize a state of financial freedom. If an individual cannot meet daily commitments and feel in control of their financial life, then it is difficult, if not impossible, to enjoy life on one's terms and meet financial goals. On the other hand, a state of financial security and a feeling of control could also mean that an individual is only just getting by, but unable to enjoy life on one's terms or meet certain financial aspirations.

In Section 3, we explore these outcome questions, offering perspectives on the nuances they reflect and how to measure them.

Financial health determinants

The outcomes of financial health are influenced by a multitude of determinants or drivers that span both individual characteristics and environmental factors.

Consider these two scenarios:

Sheila earns income X and is in the top 20 income bracket of her country Y. Y is a low-income country with limited infrastructure and few social safety nets. Sheila is a single mother in her thirties and has many financial commitments that she is currently able to fulfil. However, she does not set aside regular savings although she saves when she can. So far, her income has been able to hold her over a few difficult times such as when one of her children needed surgery for appendicitis. She knows that she can depend on her family and friends in times of need.

Sam, a single male in his twenties earns income B that is below the median income in his country Z (and also lower than Sheila's X in absolute terms). Z is a high-income country with good infrastructure and social safety nets. Sam does not have many spending commitments – no children and his rent is reasonable. He is quite financially savvy and regularly puts aside money in savings and investments, though not very much. Sam has yet to encounter serious financial problems and worries he wouldn't be able to weather a major financial emergency. He is proud of his independence and does not want to burden family or friends if a financial problem were to arise.

16. See: https://news.gallup.com/reports/233399/gallup-global-financial-health-study-2018.aspx#:~:text=The%20Gallup%20Global%20Financial%20Health,informed%2C%20evidence%2Dbased%20decisions

Sheila and Sam's financial health is influenced by varied drivers. These drivers are a combination of individual and human (or group) characteristics such as income, financial habits, age and gender and environmental factors such as household characteristics, social capital, financial services and the broader socio-economic environment. (See hourglass model on page 16).

These factors influence each other in myriad ways and their interactions either enhance or undermine financial health. What's more, these factors themselves evolve, thereby changing a person's financial situation from one day to the next.

Let's examine them.

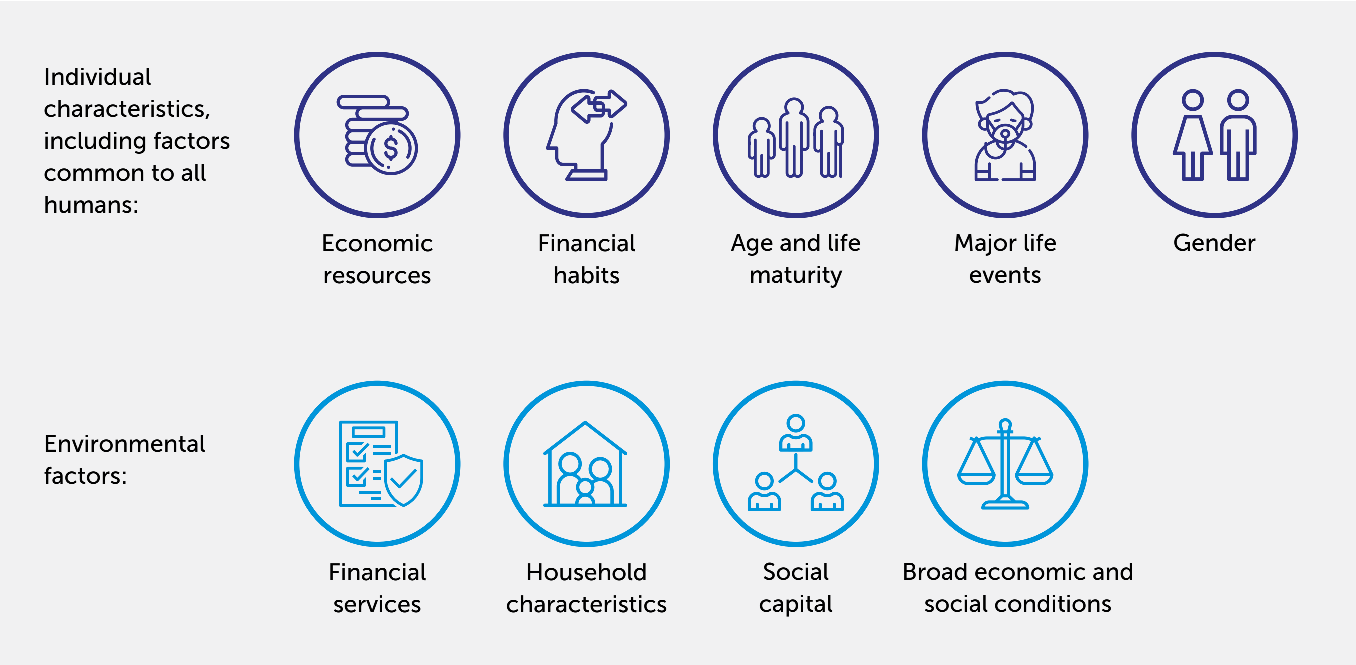


Figure 3: Financial health determinants

Individual characteristics, including factors common to all humans

Economic resources such as income and assets directly influence financial health. Financial Health Network's study indicates that financially thriving segments of the population are usually at the highest income bracket level.[18] Conversely, data from detailed financial diaries in Kenya reported that 94% of the financially unhealthy respondents were from poor households.[19] CFPB's research in America showed that liquid savings (assets) is a key differentiating factor between the financially healthy and unhealthy, at least in terms of handling small financial shocks.[20]

While income and financial health correlate, income and assets alone do not explain financial health. For example, the thriving, financially healthy segments in both the Financial Health Network and financial diaries studies include poorer households as well, indicating that factors other than income are at play.

18. Financial Health Network formerly Centre for Financial Services Innovation(2015).
19. Zollman. J. (2014). *Kenya Financial Dairies : The Financial Lives of the Poor*
20. Consumer Financial Protection Bureau. (2017). *Financial well-being in America*

Sheila with a high income may not necessarily be better off than Sam from a financial health standpoint because of other factors such as her low propensity to save and her socio-economic environment.

Financial habits: some research has indicated the impact of financial behaviours such as active saving, moderate spending and not borrowing for financial expenses on the financial health of individuals.[21] Financial habits though are influenced by one's stage in life such as Sheila's—that of a single mom juggling multiple financial responsibilities, one's cultural environment and broad socio-economic conditions. Financial habits are also influenced by psychological biases, that we are all more or less susceptible to.

The field of behavioural economics has studied several biases that people operate by. We regularly overestimate our abilities or underestimate potential risks. For example, Sheila presumes she can sail through an exercise routine, the children's homework and have some family over for dinner this coming weekend, even though she knows that each of these usual tasks take more time than she thinks. Sam presumes he can balance eating sugary treats because he hits the gym a few times a week. He (over) estimates his calorie burn while underestimating caloric intake. In the same way, when it comes to finances, people tend to put off uncomfortable thoughts until "later" (procrastination) and what is way into the future is less important now (time-inconsistency). These biases come to light when we see how under-prepared people are for their own old age or how surprised people seem to be when an inevitable car repair is needed, or that school fees really must be paid, today.

What's interesting is that those that make up the private sector and policymakers are no less prone to these biases. As the renowned behavioural economist Daniel Kahneman famously remarked, we are all susceptible to these biases whether we are end clients or bank officers who serve end clients or policymakers who regulate bank officers.

Behavioural sciences, therefore, could be a useful way for all stakeholders to think about human behaviour, product and policy design, and how these products and policies are delivered and/or communicated. A classic example is pension defaults. In most low- and middle-income countries, policies that require employees to make provisions towards their own pensions exist, attracting high participation. However, given that much of the developing world functions informally, many people, particularly the low-income, are left out and voluntary schemes to loop them in have seen much less participation.

Age and life maturity: working adults do well on income flows, but they experience escalating spending commitments such as mortgage and childcare costs. Youth have fewer expenses, commonly paid for by the household, but limited income flows, in contrast to working adults. Older adults demonstrate rather mixed financial statuses.[22] While some are able to amass assets throughout their working life, others are woefully under-prepared for old age.

21. Kempson et al.(2017). *Financial Well-Being. A Conceptual Model and Preliminary Analysis* and Commonwealth Bank of Australia Australia (CBA), Melbourne Institute (MI). (2018). *Using survey and banking data to measure financial well-being*

22. Kempson et al.(2017). *Financial Well-Being. A Conceptual Model and Preliminary Analysis; Muir et al,(2017). Exploring financial well-being in the Australian context*

Major life events such as higher education, starting a family or a chronic age-related disease could influence financial health directly by reducing economic resources. To that end, financial health is not static and varies during the course of an individual's lifetime.

Gender: Some research suggests women and men do not exhibit differences in financial health (CFPB, USA).[23] At the same time, other evidence indicates that women do less favourably in managing daily commitments and being prepared for the future.[24] Household dynamics and social norms that dictate separate financial responsibilities for men and women are plausible explanations for this disparity. For example, in most parts of Africa and Asia, men manage significant expenses such as housebuilding, asset purchases and education whereas women manage recurring expenses, such as food and regular bills. Women and men also exhibit varied literacy levels, earning potential, negotiation and decision-making power, suggesting that their financial health status that derives from these various factors might also differ.

Sheila, a working woman with children has a high income but also high spending obligations, owing to her stage in life. She juggles many financial responsibilities, including caretaking expenses. Sam, on the other hand, is a young, single male with a lower income but fewer spending commitments, and is therefore, able to save and invest more regularly.

Environmental factors

Financial services: the availability of affordable financial products and services (financial inclusion) and a reasonable degree of financial capability could impact financial health. Financial inclusion as noted before, has had some modest impacts such as increase in financial resilience, improvement in women's empowerment and business growth and expansion. For example, the use of commitment savings devices has helped women from low-income families put aside savings for specific goals that they can then access in times of need. This product, by design, addresses several psychological biases such as time-inconsistency, procrastination and mental accounting. Responsibly designed short-term digital credit is enabling low-income people running small businesses to address working capital needs at reasonable costs and with minimum hassle.

Household characteristics: factors like parental education, household-decision making, household's clan/caste status impact the financial behaviours and economic resources of individuals. Household characteristics also impact the uptake and usage of financial services (financial capability) as well as psychological attributes of individuals.

23. Consumer Financial Protection Bureau. (2017). *Financial well-being in America.*
24. Kempson et al.(2017). *Financial Well-Being. A Conceptual Model and Preliminary Analysis*

Social capital: social capital is an essential determinant of financial resilience, a component of financial security. Evidence indicates that in times of need or crisis, people rely on family and friends the most, and this is especially true in the developing world.[25] Cultural factors play a huge role in the use of social capital. For example, in many African countries, it is commonplace for rural communities to rely on immediate family or their community savings group when emergencies arise. In India and most Asian countries, parents invest in their children's education with implicit or explicit expectations of reciprocity during old age. In Sheila's case, she has her family and friends to bank on in times of need whereas Sam might not count on it.

Broad economic and social conditions influence financial health by creating conditions for growth and stability. For example, social safety nets, public health infrastructure, labour market mechanisms like unions or minimum wage laws and conducive policies for entrepreneurship enable a state of financial health. Research suggests that those who live on the margins of the labour market or who engage in part-time employment experience low levels of financial well-being.[26] By similar logic, agricultural populations or those in informal businesses are especially susceptible. The underlying factor is unstable income or life situations that, in addition to putting a strain on finances, also impede the efficient planning of finances, thereby negatively impacting financial well-being.

Additionally, those in formal employment have several financial decisions cut out for them; formal jobs come with structured and predictable financial packages such as insurance, direct deposit and pension savings, among others, helping secure financial futures for employees without much effort on their part. Informal workers are at a disadvantage as they do not enjoy such benefits.

Sheila and Sam belong to very different socio-economic environments. While Sheila is a high-income earner, she belongs to an environment where social safety nets are not as prevalent or where public infrastructure is not as developed as in Sam's environment. So, if Sheila were to lose her job for instance, she might be worse off than if the same were to occur with Sam, all else being equal.

What now?

Outcomes and determinants make up the building blocks of financial health. The determinants of financial health are diverse and influence each other as well as financial health outcomes in myriad combinations. This makes financial health a complex and nuanced concept but also one focused on the outcomes we'd like to see manifested for end clients. More research is needed to understand the relative importance and interaction of different drivers.

This initial discussion on the building blocks of financial health is a stepping stone to programming efforts towards financial health. Equipped with this understanding, we now proceed to discuss approaches to measuring financial health in Section 3 exploring how stakeholders could use the concept of financial health to create suitable financial programs and policies.

25. Global Findex Database, 2014 and 2017

26. Kempson et al.(2017). Financial Well-Being. A Conceptual Model and Preliminary Analysis; Muir et al,(2017). *Exploring financial well-being in the Australian context*

Section 3

Measuring Financial Health

Different approaches, key considerations and guidance for private and public sector stakeholders

In sections 1 and 2 we introduced the concept of financial health and its building blocks. In this section we discuss various approaches to measuring financial health, lay out some key considerations and introduce guidelines for stakeholders to get started on measuring financial health.

Financial inclusion is largely a binary measure. It looks at whether someone has a bank account, uses a mobile wallet to make transactions, has insurance or not and so on. This tells us whether financial services are accessible and used. It gives limited insight, however, into whether and how the access and usage of financial services improves people's well-being.

The concept of financial health provides more insights into this very question. It calls for a more nuanced measurement framework than financial inclusion. While most agree that it's important to have a practical measure to better understand people's financial health, there is no consensus yet on the measure itself.

Exploring key measurement frameworks of financial health

Financial health is a state in which an individual can meet current needs, absorb financial shocks and pursue financial goals. Financially healthy individuals also feel secure about their finances. The following captures the four dimensions of financial health:

- **Financial security** is the ability to meet short-term commitments.
- **Financial resilience** is the ability to cope with unexpected or adverse events.
- **Financial control** is being confident of one's finances, now and in the future.
- **Financial freedom** is the ability to meet long-term financial goals and desires.

The ability to meet financial commitments in the short-term and have financial resilience can be observed, at least to an extent, while financial control and freedom also consider people's perception and personal goals. How can a measurement framework consider aspects that are more subjective in nature? And should the focus be on financial health outcomes, or also consider the drivers of financial health? Is a uniform measure of financial health desirable or must it be adapted to the customers' context? Below we discuss several measurement frameworks that have approached these questions in different ways.

In 2015, the Financial Health Network pioneered an easy-to-implement financial health measure, initially developed to be conducted in the United States. Their framework categorizes financial health into four categories - plan, save, borrow and spend - and draws from data collected through demand-side surveys and transaction data. The eight indicators measure a mix of self-reported financial behaviours (e.g. planning ahead, spending less than income, paying bills on time) and financial conditions (e.g. credit score, having manageable debt load, short and long-term savings). With that, the framework considers aspects of financial security and control. Financial aspirations and goals (i.e. financial freedom) are included in the analysis as contributors to financial health, but are not included in their financial health measure. Also relevant to note is that the Financial Health Network does not directly measure financial health outcomes but measures the behaviours and financial conditions as pathways to those outcomes. For example, the measure assumes that spending less than one's income and having savings increases financial resilience.

The Consumer Financial Protection Bureau (CFPB) developed a 100-point financial well-being scale, also initially developed to be applied in the United States.[27] Respondents score ten statements that cover self-reported financial status ("I am behind on my finances"), subjective assessments of financial security ("I could handle a major unexpected expense") and feelings of financial well-being ("My finances control my life"). Contrary to the Financial Health Network's framework, CFPB considers respondents' confidence in their financial conditions and their feelings of self-efficacy. This is significant because, as CFPB notes, financial well-being can mean different things to different people. CFPB found wide disparities in how people feel about their financial situation for a given financial health score. These insights are particularly relevant for policymaking and the effective design and delivery of financial solutions.

Building on previous empirical work done in the UK and seven low-and-middle income countries, Kempson et al (2017) offer a more objective version of the CFPB scale. CFPB did include objective measures in their empirical work such as income, borrowing patterns and education levels, though these were identified as determinants of financial health. The scale proposed by Kempson et al includes objective (though self-reported) measures in the scale itself. Specifically, the scale captures the extent to which people are able to meet their commitments. This is determined in a number of ways to capture varied responses - from a lack of resources for essential needs; the extent to which they have money left over after essentials to the extent to which they would be able to deal with economic shocks in the future. Kempson's research shows that financial behaviours and socio-economic environmental factors influence financial health directly, and these in turn, are determined by psychological factors

27. CFPB is an agency of the United States government responsible for consumer protection in the financial sector.

such as self-control and attitudes to spending, saving and borrowing. Knowledge and experience have a minimal effect through behaviours.

Gallup's global financial health study includes a subjective measure of financial control and an objective (though self-reported) measure of financial security. The financial control metric is a count of positive answers to ten binary questions. These questions assess the extent to which people perceive they are in control of and can influence their financial situation. Examples of statements include "Do you think that no matter what you do your financial future will stay the same?" and "Have you tried saving in the past and were not able to?". The financial security measure is based on statements related to respondents' ability to cover their basic needs with their liquid savings should they lose their income, and their ability to fulfil their debt repayment obligations.

Gallup shows that people with low levels of perceived financial control are also likely to show low levels of financial security. And while financial security tends to be higher in high-income countries, there seems to be no relationship between perceived financial control and income level. With that, Gallup concludes that the measure of financial control could provide insights into financial security that are comparable across different contexts.

Innovations for Poverty Action (IPA) developed a measure of financial health centred around financial resilience, a sub-component of financial security. Building on questions on financial resilience in the World Bank Global Findex survey, respondents are asked how difficult it is for them to raise a certain sum of money (scaled to Gross National Income (GNI) per capita) in defined timeframes, and the main source(s) of funds they would rely on. The survey also includes questions on access to finance and financial behaviours. These are considered as inputs and provide context to the findings but are not included in the actual financial health measure. As such, IPA's financial measure is simple to implement but may not provide a nuanced understanding of an individual's financial health.

In Financial Sector Deepening (FSD) Kenya's financial health index respondents are considered financially healthy if they score positive on at least 6 out of 9 binary indicators related to their ability to manage day-to-day expenses, cope with shocks and invest in the future. FSD's analysis of the FinAccess household survey data shows that between 2016 and 2019, the percentage of financially included adults increased from 75% to 83% in Kenya. However, during the same period the percentage of adults classified as financially healthy dropped from 39% to 22%. These findings illustrate the limitations of the binary financial inclusion measure. Also, FSD's analysis, which builds on existing data and survey tools, highlights that financial health measures do not necessarily require entirely new tools and data.

The measurement frameworks outlined so far all rely on demand-side data. In other words, they all entail conducting a survey among customers. There are also examples of measures that rely on supply side data to measure financial health. The Commonwealth Bank of Australia (CBA) and Melbourne Institute (MI) developed a financial health measure that determined the following data points to be the most effective in accurately measuring a customer's objective state of financial health: payment dishonours, payday loans, liquid balances and savings using transaction data.[28] This observed measure is complemented by a subjective measure which builds on CFPB's scale, described above. The survey is conducted among the same clients.

28. Payment dishonours refer to non-payments by due date. Payday loans refer to small, short-term, unsecured loans with high interest rates. The word payday specifically refers to post-dated cheques written out to lenders for payday salary in exchange for immediate cash from the lender.

CBA-MI's findings show a strong positive correlation between observed and self-reported financial well-being, i.e., 70% of the respondents with high self-reported financial well-being scores also show high financial well-being based on transaction data. While the discrepancies for 30% of the sample require further investigation, the findings do suggest that transaction data and self-reported data could serve as measures of financial health in conjunction or independently.[29]

In conclusion, the outline above is not meant to be exhaustive, but shows how the measurement of financial health can be approached in different ways. All frameworks discussed so far are helpful in their own right, whether focused on behaviours, perceptions or outcomes. However, the underlying logic of measuring financial health needs to be clear in order to draw the right conclusions.

Considerations when measuring financial health

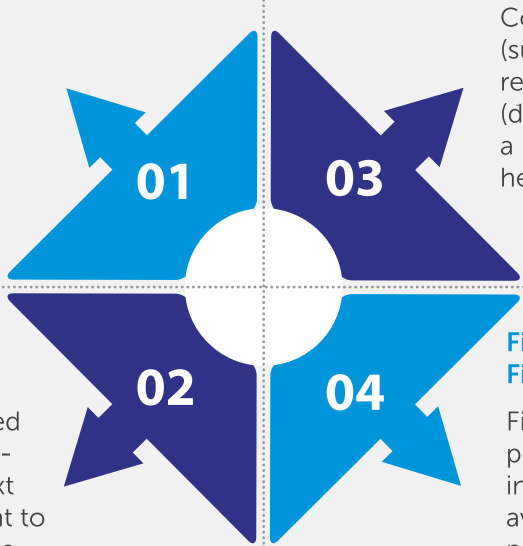
Based on the exploration of the various measurement frameworks discussed above, we identify four factors to consider when measuring people's financial health.

Outcomes versus Determinants

Whether financial behaviours or the outcomes of those behaviours provide a more relevant and reliable measure of financial health remains an open question.

Financial health measures must be rooted in context

Financial health measures need to consider the broader socio-economic and cultural context of the respondents. The extent to which certain factors influence people's financial health may not be consistent across contexts.



Demand versus Supply side data

Combining transaction data (supply side data) with self-reported, more subjective data (demand-side surveys) provides a nuanced and solid financial health measure.

Financial Inclusion and Financial Health

Financial health builds on and provides nuance to financial inclusion metrics. As such, the availability and usage of financial products and services should be considered when measuring financial health.

Figure 4: Four factors to consider when measuring financial health

Outcomes versus Determinants

In Section 2, we distinguished the outcomes of financial health from its determinants. This distinction is equally relevant when measuring financial health. Most of the measurement approaches discussed above are outcomes-focused (CFPB, Gallup, CBA and IPA). Financial Health Network's measure of financial health also includes determinants. More specifically, Financial Health Network tests for respondents' spending, saving, borrowing and planning behaviour. This poses the question of whether financial behaviours or the outcomes of those behaviours provide a more relevant and reliable measure

29. The discrepancy could be partially explained by the fact that CBA's study included transaction data from CBA account holders only.

of financial health. Or, as an example, should we ask people about their savings habits or consider their savings balances?

Besides financial behaviour and habits, a broad range of variables play a role in determining an individual's financial health status. In Section 2, we made a distinction between personal characteristics (e.g. age, gender, income and assets) and environmental factors (e.g. household characteristics, social capital, socio-economic environment). CFPB conducted extensive analysis in the United States on how some of these factors interact with financial health. Higher income, employment status, education level and older age all show a positive relationship with financial health. Within various subgroups of sample respondents there is a high degree of variation. For example, while the average financial health of people with a university degree is much higher than the average financial health of people without a degree, some people with only a primary school degree show higher financial health scores than many people with a university degree. This confirms that many factors are at play and that there is no single explanatory variable for financial health.

While complex, considering the determinants of financial health is imperative. For measurement, it is important to make a distinction between outcomes and determinants. Measuring financial health outcomes allows to take stock and monitor how individuals' financial health status evolves over time. Measuring the determinants is important to understand whether and how specific factors influence people's financial health status. This is particularly relevant for policymaking and product design.

More work is needed to better understand the determinants of financial health and how these determinants interact. Also, if correlation with financial health is established, what is the direction of this correlation? And to what extent can the determinants be used as proxies for financial health?

Financial health measures must be rooted in context

Pursuant to the above, financial health measures need to consider the broader socio-economic and cultural context of the respondents. The extent to which certain factors influence people's financial health may not be consistent across contexts. For example, in low-income countries social capital is a key determinant of financial resilience. It is common to rely on family and friends to cope with and recover from financial shocks. In more developed countries, the welfare state offers a level of protection and basic economic security, such as Sweden and the Netherlands. Relying on social capital therefore, is less prevalent. For this reason, when CFPB's tool was applied in Brazil, some of the statements were tailored to suit the country's financial conditions.

Demand versus Supply side data (or client surveys versus transaction data)

Most existing measurement frameworks discussed above rely on self-reported data (demand-side surveys); a few make use of transaction data (supply side). Both types of data have their pros and cons-not unlike measuring financial inclusion.

The World Bank Global Findex database is a key reference for financial inclusion metrics. It provides longitudinal data and is comparable across countries. But demand-side data is costly and time-consuming to collect. Consequently, Global Findex data is available in 3-year intervals.

Once the systems are in place, supply-side data is less costly to collect and can provide real-time insights. But supply-side data holds its own challenges. For one, there is limited evidence to suggest that account activity gleaned through transaction data could explain financial health. Second, private sector players are often reluctant to share data, for obvious reasons. When it is shared, for example, when mandated by the regulator, data quality assurance warrants attention. It also requires strong systems and resources to manage, extract and analyse data.

In addition, transaction or supply-side data used from a single institution to capture financial health does not capture the totality of an individual's financial condition. For example, it doesn't account for multi-account ownership. Additionally, cash-based transactions – which could be substantial in low- and middle-income countries – are not accounted for.

Customer perceptions are at the centre of financial health measures and subjective assessments of financial health status provide nuanced insights that cannot be extracted from transaction data. Also, the challenge of making a measure work across different contexts is (partially) addressed by including respondents' self-reported qualifications of their financial status. At the same time, transaction data provides very detailed and objective insights into financial behaviours. And contrary to customer surveys, supply side data is not impacted by response biases.

Therefore, combining transaction data with self-reported, more subjective data provides a nuanced and solid financial health measure. This is in line with the frameworks of CBA and CFPB, outlined above.

Financial Inclusion and Financial Health

Financial health builds on and provides nuance to financial inclusion metrics. As such, the availability and usage of financial products and services should be considered when measuring financial health. IPA and CFPB consider the availability and usage of financial services as determinants. In an adaptation of Financial Health Network's model for developing countries, the use of financial tools is included in the actual measure of financial health (CFI & Financial Health Network, 2017).

> It is important to keep in mind that financial products or services do not, by default, have a positive impact on people's financial health. They are tools to improve financial well-being, but can also carry a risk. If not designed or delivered appropriately– and for that matter used suitably– financial services could in fact have a significant negative impact on people's financial health.

For example, digital credit offers significant opportunities for un(der) banked populations to access loans. However, due to ill-designed credit scoring systems and other features, it has also led to over-indebtedness and a bad credit score for many. A financial health measure should help us assess whether the means (financial inclusion) contribute to the ends (financial health).

Who will measure, how and for what?

We want to measure financial health to better understand what drives or inhibits people's financial health. In addition, financial health metrics are more comprehensive indications of an individual's financial life, which is key to understanding the client on many levels. Financial health measurement, therefore, is crucial for policymaking and the effective design and delivery of customer-centric financial solutions. Policymakers and the private sector have a key role to play in measuring financial health.

The measurement frameworks discussed in this section allow policymakers, regulators and private sector players to assess how their (lack of) action impacts people's lives in terms of financial security and resilience, control and/or freedom. Whichever approach is applied, the findings should inform appropriate public and private action that ensures and advances the financial health of people, particularly of marginalised groups, and incentivises the market to act in favour of their clients' financial health.

In their recent paper "Measuring Financial Health: What Policymakers Should Know," insights2impact (i2i) lays out recommendations for policymakers to get started on the measurement of financial health. Drawing from these recommendations and the exploration described above, we outline below the proposed steps private sector players, policymakers and regulators could follow in measuring financial health.

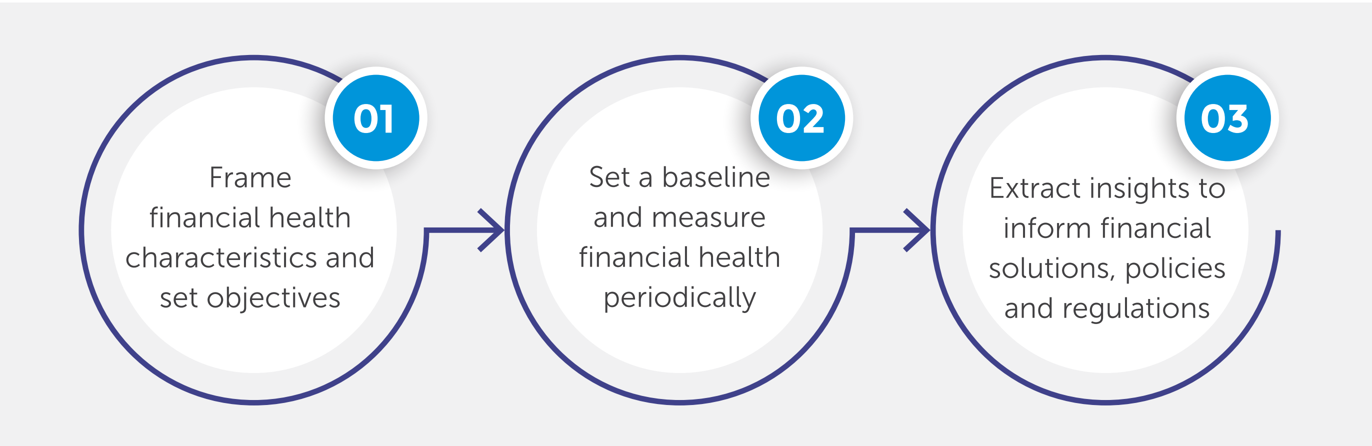


Figure 5: Three steps to follow in measuring financial health

Step 1: Frame financial health characteristics and set objectives

A set of financial health characteristics would guide the public and private sector's actions to contribute to end clients' financial health. Based on these characteristics, stakeholders can set their objectives and monitor progress. Below we list an initial set of characteristics that could be considered. Most are relevant to both public and private sector actors.

Financial Health Characteristics

Data collection: Is the financial health of end-clients measured and monitored over time?

Product design: Is the design of financial solutions informed by financial health data? Is the clients' financial security and resilience, control and/or freedom considered in the design and delivery of financial solutions?

Attention to marginalised groups: Does the data monitor, measure and inform targeted actions to improve the financial health of vulnerable population segments, e.g. low-income, women, informal workers, elderly, and youth?

Pricing: Are financial products and services priced fairly?

Transparency: Are all product features transparent to ensure clients take informed decisions and understand the impact on their financial health?

Marketing and communications: Are marketing materials and other communications actively promoting financial health, for example through savings reminders or responsible financial education?

Financial education: Is financial literacy and education actively promoting messages related to financial health?

Step 2: Set a baseline and measure financial health periodically

Once the characteristics and objectives are set, the next step is to identify the measurement framework that will be applied to take stock, monitor and better understand how individuals' financial health status evolves over time. The considerations outlined earlier should be kept in mind. Of course, available financial and human resources are key drivers of the chosen methodology and frequency of data collection.

For private sector actors, their own transaction data is a rich source of information to gauge the financial health of their customers. This can be supplemented by a short outcomes-focused survey conducted with a subsample of the institution's customer base. This requires dedicated human resources for analysing and extracting insights, but only limited efforts are needed in terms of data collection. Annex 2 gives an overview of the indicators applied by the discussed frameworks.

Larger surveys conducted with representative samples and repeated over time are needed for statistically significant data on changes in financial health status and deriving a more in-depth understanding of the drivers of financial health. Given the required financial and human resources, public sector actors are best placed to lead these efforts.

For regulators and policymakers, it is equally relevant to understand whether and how the ecosystem as a whole is contributing to (or inhibiting) the population's financial well-being. In other words, how are market actors performing on the agreed characteristics? For example, how is the sector faring in terms of pricing of financial solutions, data collection practices, and the availability of customer-centric financial solutions.

Step 3: Extract insights to inform financial solutions, policies and regulations

Equally important to measuring the status and progress in financial health of end clients is using the data and insights to inform the design of products, policies and processes, and communication materials. This requires a strong commitment to the financial health characteristics by senior officials and the management.

The relevance of a solid and nuanced framework to measure financial health cannot be overstated. The exploration of different approaches helped us identify the key considerations to keep in mind and provide initial guidance on measuring financial health as outlined above. Sections 4 and 5 will discuss how the private sector and policymakers could operationalize financial health.

Section 4

Financial Health and Financial Service Providers

Building a case for the private sector, particularly financial service providers to focus on financial health outcomes for their customers

This note explores the intersection between financial health and customer centricity and builds a case as to why financial providers should focus on the financial health of their low-income customers. Building on that, it provides a simple and practical roadmap for financial service providers to adopt and operationalise. This is the fourth section in a 5-part financial health series. It is meant for standalone reading but assumes basic understanding of the concept of financial health, so a quick pre-read of sections 1 and 2 on the basics of financial health is recommended.

Customer centricity efforts should be anchored to financial health outcomes for customers

At the core of every single financial service provider's mission statement is the promise to improve customers' financial outcomes. "Ninety percent of the top banks and insurers have customer centricity at the top of their strategic agenda and their leaders say that they want to become more customer-centric," said Henrik Naujoks, Partner, Bain & Company. Studies from Forrester and Deloitte demonstrate that customer-centric companies bring in 5.7 times more revenue and 60% more profits than their counterparts. A recent article from Forbes lists 50 similar statistics that demonstrate the value of customer experience.[30]

Customer centricity seems like common sense and the term is used by the private and development sector alike. Despite that, there is a near consensus that with few exceptions not a lot of progress is being made by financial services providers in achieving customer centricity. As it took hold as a goal to be pursued, the financial sector may have also been distracted by several technology, process and product disruptions.

The disruptors were not particularly holistic in their view of customer centricity. Financial "inclusion" drove many innovations to focus exclusively on making products more accessible. Adages such as "no

30. https://www.forbes.com/sites/blakemorgan/2019/09/24/50-stats-that-prove-the-value-of-customer-experience/#689193864ef2

more queuing at the bank" and "make deposits at the market" were and continue to be ubiquitous. User experience is another key focus, with providers aiming to make product use "seamless," with emphasis on simpler interfaces and the use of agent banking among other things. But are we confusing customer service with the goals of financial inclusion? And, are pressures to "reach scale" adding to the industry seemingly losing sight of the bigger question: is my innovation or service transforming the financial lives of individuals, households and communities?

We believe that our industry is more than a service provision. As development-oriented sustainable financial service providers, we all must put customer financial health at the centre of our business and orient our business toward achieving that goal. The rest of this article discusses a roadmap that financial service providers can follow to put customers at the centre and focus on their financial health.

For financial providers, it involves looking at their organisation across four pillars: 1) Strategic Imperative, 2) Metrics & Measurement Model, 3) Organisational Alignment, and 4) Marketing for Trust.

Figure 6: Four pillars to focus on to put customers at the centre and focus on their financial health

Financial health as an explicit strategic imperative

This step begins with a ground-truthing exercise to arrive at a clear understanding of where the organisation currently stands in terms of customer centricity and financial health, followed by simply making a strategic choice as to whether customer financial health is an explicit executive priority or not.

We'd like to caution here that a financial health focus needs to be a strategic decision which is core to how an organisation is led, designed and managed. It will not succeed if it is treated as a pilot program or merely as one of the many small departments or a function within the current organisational set-up. If a focus on better customer financial health outcomes is not driven directly by the CEO, it will constantly be challenged by the legacy culture, and priorities of the organisation.

Drawing from our work with numerous organisations over the last two decades that helped them become more customer-centric, we have developed this indicative framework to synthesise how customer centricity has evolved in the context of financial health. This framework reinforces the notion that a focus on financial health is the final frontier for financial providers who are truly and deeply committed to their customers.

Figure 7: A framework for customer centricity and financial health

One can use this indicative framework to evaluate where an organisation stands in terms of customer focus. This will provide a quick reality check in terms of an organisation's position along this spectrum that demonstrates an ideal journey from being transactional (organisations who are on step 1 or step 2 – focused on access and usage – as depicted in the framework above) to transformational (organisations who are deliberately moving towards step four of being truly focused on building their customer's financial health).

One can begin with three quick anonymous surveys: one with the top leadership team, one with associates and one modifiable version for customers, asking them to simply place the organisation along this spectrum. The next step is to compare perceptions across these stakeholders. This quick exercise could provide major insights and represent a moment of truth, but more broadly this step amounts to the leadership's willingness and ability to simply make a strategic choice.

This is a critical step – financial health is either an executive priority or not. If it is, then the next step is to resolve any gaps in alignment and have a shared vision of success across the organisation. For example, what does it exactly mean for an organisation to focus on customers' financial health? In the next section on metrics and a measurement model, we provide some insight into this question.

Re-prioritise your metrics and measurement model

With an agreed focus on customer financial health, the organisation must now identify their goals, and the measurement framework to understand if they are on the road to the outcomes they seek.

Under this section, we will cover three areas that are essential to developing a robust metrics and measurement model: 1) developing a system to measure and understand customers' financial health; 2) using the resulting insights (from 1) to inform customer-focused metrics, referred to as primary metrics; and 3) reviewing and reprioritizing internal metrics related to institutional growth and efficiency, referred to as secondary metrics.

Understanding your customers' financial health

Understanding customers' financial health is difficult. The U.S. may be the market most focused on trying to understand the financial health of Americans. Government and think tanks produce national surveys as well as qualitative and quantitative tools developed through various levels of academic rigor. For example, the Financial Health Network has identified a financial health framework that can be used to measure customers' financial health across the four components of financial health: Spend, Save, Borrow, and Plan.[31] The Consumer Financial Protection Bureau in the US has developed a set of questions and a scale to measure financial well-being.[32] Another example is FSD in Kenya who have also developed a measurement framework called the multidimensional financial health index and Commonwealth bank of Australia and Melbourne Institute who used both transaction data (leveraging bank account data) and a subjective customer survey to assess customer financial health.[33] It is important to note that that there is no agreed upon framework to understand or measure financial health. (Read section 3 for more context). In addition, as some institutions only offer credit or savings, they will want to tailor what they can measure vis-a-vis what they currently offer or might want to offer. These frameworks can also be illuminating in terms of helping financial providers determine if their customers are financially healthy overall.

31. https://finhealthnetwork.org/score/
32. https://www.consumerfinance.gov/data-research/research-reports/financial-well-being-scale/
33. https://www.fsdkenya.org/research-and-publications/inclusive-finance/ and https://fbe.unimelb.edu.au/research/streams/health-and-wellbeing/measuring-financial-wellbeing

Organisations can collect survey and transactional data to understand their customers' financial lives and benchmark that data against national or regional data. Transactional data – such as on-time bill payment rates, savings balances or credit scores – will provide financial providers with a narrow, yet a more nuanced view of their customers' financial lives. Benchmarking transactional data against comprehensive internal surveys or the national or regional data is important as it is generally difficult to have a complete aggregated overview of a person's financial situation through transactional data alone. Drawing conclusions based on incomplete observed data will perhaps lead to wrong interventions. Collectively, this data will reveal gaps, insights, and opportunities that will inspire and inform the design of new financial health strategies. In addition, continuous monitoring of customer financial health provides organisations with a way to measure the efficacy of their efforts and innovations to better guide the allocation of scarce resources to high ROI activities.

Primary Metrics

At the highest level, primary metrics should be: 1) Focused on positive outcomes for customers; 2) Clear and inspiring to everyone in the organisation; and; 3) Measurable.

We recommend having three primary metrics that cover three critical areas of the organisation: customer outcomes, customer perception, and organisational growth or efficiency.

- **Customer outcomes**: The first metric should be around real change or outcomes for the customer, Eg: increasing their short-term and/or long-term savings, increasing their business revenue, increasing their income, reducing their cost of credit/financing, reducing their defaults, improving their risk profile or credit score. It is important to note that these measures should be evaluated as sub-components of a holistic and rigorous financial health measure. A relentless focus on increasing savings can drive disproportionate rises in debt, and vice versa. The outcomes- based measure should be a holistic measure of financial health that ensures all aspects of a consumer's finances (spending, income, savings, and debt behaviours) are balanced.
- **Customer perception**: The second metric is customer perception tracked regularly through a robust Net Promotor Score (NPS) system.[34] Given our digital advancements, it is relatively straightforward to set up an NPS system. Depending on how customers interact with the organisation, one could begin by setting up a quick three-question NPS like survey over Whatsapp or any other messenger digital tool easily accessible to customers.
- **Organisational growth or efficiency**: The third one, which is more internal, could focus on either growth, efficiency or outputs, depending on the type of organisation and one's current priorities (for example, number of enrolments, usage, persistence etc.). In addition to focusing on frequency of engagement, these metrics should also include breadth of customer coverage and "necessary engagement" (e.g. x% of customers have automated savings and have stuck to their pre-defined settings).

34. https://www.qualtrics.com/experience-management/customer/net-promoter-score/

Secondary Metrics

Once primary metrics are pinned down, the next step is to identify a set of secondary metrics which are mostly internal or growth-focused like enrolments or usage as well as efficiency-focused metrics like revenue per client, cross-sell and upsell.

One of the key differences between the primary and secondary metrics is that the primary metric should be outcomes-focused i.e. in this case positive financial health outcomes for customers and the secondary metrics are mostly output -focused such as number of clients, usage of products, revenue per client etc. We leave a small window of exception open with one growth or efficiency-focused metric to be included as a primary metric. We are also being simplistic as we recognize that most organisations do measure a mix of these or similar metrics but where they often fall short is at prioritising them in a way that enables organisations to focus on what matters the most for the organization as well as customers and a full alignment of interests between the organisation and customers. As a result, we see a trend where secondary metrics gradually take over the organisational strategy with the primary metrics being side-lined. This gradual decay or "mission drift" happens often and for straightforward reasons. It is significantly easier to manage and drive outputs (like enrolments) than outcomes for customers (like helping them increase their savings or improve their resilience) and of course, there are constant short-term performance pressures around profitability and increasing shareholder value. As a result, the secondary metrics which are meant to be a useful tool become the terrible master.

Once the metrics are clear and prioritised, the next step is to ensure organisational alignment across all key functions, including technology, products and processes.

Organisational Alignment – Technology, Products, Processes and Business Case

While restricting or realigning an organisation to be customer-centric is not simple or something that can be achieved by reading a 5-page brief, organisations that have a clear focus on customer outcomes and their financial health have the opportunity to outperform those that do not.

The good news is that once the first two steps are taken in the right direction i.e. a clear and shared vision of success that is focused on customers' financial health and a metrics and measurement model that is in line with the organisation's vision, one will have a better understanding of the changes that need to be made. These could be around improving technology to suit customer needs, adding or removing some products from the product portfolio, simplifying processes and adding or terminating partnerships.

While some changes could seem overwhelming, the key here is to identify priorities and develop a step-by-step execution roadmap that is manageable, measurable and appropriate to the unique context and capabilities of the organisation.

One of the major challenges that leaders within the organisations face as they evangelise such a fundamental and radical shift is establishing a strong business case, which is specific to the organisation and clear in terms of its return on investment (ROI).

While there is a lot of high-level data available that demonstrates that organisations which focus on maximizing customer value generate significantly better returns than organisations simply pushing products and services, the key dilemma here for most leaders is the time horizon. Focusing on financial health will require organisations to make investments that will pay off in the long run. It is important to ensure that the expectations are well-aligned between the leadership and employees and that the organisation is willing and able to see the long-term value despite the pressures to look good and deliver within a short time frame.

Financial Health Network, a partner of MetLife Foundation, has engaged with "Financial Health Leaders", leading financial providers in the US, and identified the key issues to consider when making the business case to their Boards and management. A table reproduced below from their note provides for a practical summary and overview of how improvement in financial health of customers affects the key business metrics which in turn, drive an organisation's ROI at multiple levels.

Improvements in customer financial health	Impacts key business metrics	Drives ROI at multiple levels
SPEND 1. Spend less than income 2. Pay bills on time and in full SAVE 3. Have sufficient liquid savings 4. Have sufficient long-term savings BORROW 5. Have a sustainable debt load 6. Have a prime credit score PLAN 7. Have appropriate insurance 8. Plan ahead for expenses	• Larger deposit balances • Reduced delinquencies and charge-offs • Increased cross-sales and customer lifetime value • Higher customer satisfaction and retention • Lower customer service costs • Improved employee engagement and retention • Enhanced reputational and brand value	• Account • Customer/Household • Product • Customer segment • Channel • Company

Figure 8: Summarized business case for Financial Health (Source: Financial Health Network)

Those in the process of developing a business case for their organisations will benefit from reading the paper for a deeper dive into what each of the metrics mean and how to measure ROI at multiple levels.[35]

35. https://finhealthnetwork.org/research/making-the-business-case-for-financial-health/

Marketing for Trust

Trust is the ultimate global currency. Simply put, any organisation's success will depend on its ability to inspire and maintain trust between itself and its customers. It is even more true for financial providers as money and our relationship with money is one of the most ubiquitous expressions of trust.

Trust has traditionally been considered a soft corporate issue; its value to a company is unclear, suggests Accenture in their strategy report titled 'The Bottom line on Trust.'[36] Accenture evaluated 7,000 companies across interdependent dimensions of competitiveness: growth, profitability, sustainability and trust. The report found that more than 54% of companies in their sample experienced a drop in trust, with total revenues at stake equating to at least US$180B.

As expected, the impact of a decline in trust was most material on the banking sector: A mere 2% drop in trust levels corresponded with a 22% drop in future revenue whereas a similar drop in trust levels in the manufacturing and media sectors led to a decline in future revenue by 1.3% and 2.2% respectively.

Transparency and personalisation are more essential than ever in marketing. Personalisation can deliver 5-8 times the ROI on marketing spend and can lift sales by 10% or more (McKinsey & Company).

Fortunately, for financial providers who are truly focused and committed to building the financial health of their customers, the foundational and key steps are already taken in the right direction. Instead of having to resort to generic financial literacy, education and marketing campaigns, financial providers should focus on building a connect with their clients and providing personalised financial solutions to help them improve their financial health.

In conclusion, while focusing on customers' financial health might seem like a radical and different way of doing business for most financial providers, there is sufficient evidence that there is a strong business case in doing so and is perhaps the most sustainable way to stay competitive and relevant to customers.

36. https://www.accenture.com/sa-en/insights/strategy/trust-in-business

Section 5

Public Policy and Regulatory Considerations for Financial Health

Governments understand that the financial health of individuals impacts their capacity to be productive citizens. The pursuit of economic stability and growth requires that governments create the type of environment where people can effectively manage their day-to-day economic needs and invest in the future. Weathering financial shocks means fewer small businesses close, fewer children are pulled out of school, and fewer people suffer from preventable health concerns. Planning for the future means more businesses can invest in expansion, more children move from school to jobs, and more people live healthy, productive lives. These reasons, among many others, are why governments have an interest in public policy that promotes financial health.

The concept of financial health can be defined in many ways. Most broadly, it encompasses four important aspects of an individual's financial life: security, resilience, control and freedom. (Refer section 1).

Despite the societal and public policy benefits of these dimensions, the practice of creating policies that align with financial health is still nascent. Most policymakers and regulators focus broadly on financial sector stability and consumer protection. Stability and protection are necessary, but insufficient, preconditions for financial health. Infrastructure, technology, business models, cultural norms, behavior, and many other factors also influence the financial health of individuals.

The COVID-19 pandemic has provided a clear case for the importance of financial health. The shock of lockdowns, collapse of entire industries, and prolonged nature of the pandemic have tested individual and societal resilience. With limited ability to generate income and significant uncertainty in future employment prospects, the pandemic has demonstrated that there are systemic barriers to financial health that extend beyond an individual's propensity to save or plan. Policymakers and regulators now face an imperative to adapt their mandate, experience, and tools to promote financial health as a critical public policy priority.

Financial health is a relatively modern public policy paradigm, with a growing awareness of its importance. Rightfully prudential risk management remains critical to manage systemic stability and market integrity. This inherent focus impacts institutional structures and resources allocated to research, policy, and regulation. Officials who are willing to champion financial health still face the challenge of adapting the organisational architecture that impedes the integration of financial health into policy and regulatory systems.

Research, policy development, supervision, and industry engagement are examples of the systems that make up the architecture of financial system management. Within each is human resources, processes, budgets, and legacy systems that define how governments pursue financial sector public policy objectives. The rest of this chapter discusses how policymakers and regulators can adapt, augment, and repurpose these systems, so financial health policy complements the existing focus on managing prudential and conduct of business risks. There should not be a trade-off between these priorities. We strongly believe there is a synergy between a financially healthy society and financial sector stability. The highest order public policy objective should be to seek out this synergy.

Starting point: Define the problem – Role of measurement

Measurement becomes a central attribute of the enabling environment for financial health. Policymakers and regulators can manage the nuances defining and monitoring financial health by investing in research and data collection systems. A baseline survey is a necessary and logical starting point. The Centre for Financial Regulation and Inclusion proposes a framework for measurement comprised of financial health indexes, resilience focused inquiry, and diagnostic customer research using detailed surveys.[37] Governments would do well to apply this framework as a starting point for their own financial health agenda. (See section 3 for other information on financial health measurement)

Supply-side data through compliance reporting from financial institutions can be a foundational component of a baseline dataset. Compliance data is often focused on prudential risk and should be adapted to measure specific attributes of financial health. For example, more granular credit data can determine client exposures, particularly when cross-referenced with baseline data from local credit registries.[38] Better data also includes disaggregating data by sex/age/location, reducing double counting of accounts and refining complaints data. However, supply-side data alone is insufficient.

Measuring financial health for better policy and regulations requires the complete integration of demand-side data into existing systems. Many regulators currently focus extensively on supply indicators (particularly for measuring financial inclusion) and rely on external actors to provide relevant demand-side data. Fully embracing financial health as a priority requires policymakers and regulators to invest in collecting demand-side data while also improving the quality of supply-side data.

Impact assessments are an essential component of the measurement systems for financial health. The Organisation for Economic Co-operation and Development (OECD) has extensive research on impact of policies and regulation and notes that an impact assessment "provides crucial information to decision-makers on whether and how to regulate to achieve public policy goals".[39] Thus impact

37. https://cenfri.org/publications/measuring-financial-health-what-policymakers-need-to-know/
38. https://www.bis.org/ifc/events/7ifcconf_damia_israel.pdf
39. https://www.oecd.org/gov/regulatory-policy/regulatory-impact-assessment-7a9638cb-en.htm

assessment systems can help shape policy outcomes and determine if the regulations have been effective. They should be integrated into the oversight process, rather than seen as a separate exercise. The impact of policy on financial health may not always be direct. For example, the role of social capital should be accounted for as a determinant of financial resilience, particularly in markets where public welfare systems are not prevalent. Systematic impact analysis, using supply and demand-side data, can give policymakers and regulators the confidence that their interventions are working. Or inform how to improve those that are not.

It is expected that data derived from supply and demand-side measurement will influence strategic planning and supervisory priority-setting. However, it can also define research priorities which feed into policymaking. For governments, data can also play an important role in facilitating financial health outcomes by empowering many critical non-policy or regulatory domains. Data made publicly accessible can supply sorely needed data to consumer advocacy groups, educational institutions, civil society, and academia, all of whom can integrate the insights into their own respective programs or development of market segment-specific resources. Government sponsored financial health data can also inform public campaigns on emergent financial behaviours, risks, or activities. Lastly, it can guide the approach used to foster more responsible innovation, helping service providers to develop better, higher-quality services.

What policies will drive financial health?

In addition to measurement, policymakers and regulators require other tools to implement an enabling environment for financial health. Policy objectives must be clearly defined, evidence-based, and measurable. Regulations must enforce fair and accessible markets. Supervisors need to hold financial institutions accountable to standards that serve financial health outcomes.

There are three broad areas of policy to consider:

1. The measurement processes should track outcomes that can translate to industry level or national targets. Targets may, initially, be imperfect in an emerging practice like financial health. At a minimum, targets are necessary to guide regulatory implementation and measure policy impact. More transformative is the role that targets play in driving dialogue with the private sector and other government agencies. They help each player to understand their role in the ecosystem and the degree to which public policy can hold them accountable.

2. Secondly, policies should be designed to create the right incentive structures for financial institutions to pursue financial health outcomes. Incentives can be regressive, for example, by expanding enforcement capacity in cases of irresponsible practice. They can also be progressive, like tax breaks for enhanced services that promote financial health. These might include call centres that provide financial literacy guidance or training programs for staff to improve client capability.

3. The third area of policy focus should be the innovation environment. There is already growing global practice among financial sector policymakers to embrace technology and its capacity to scale high-quality services. Sandbox frameworks are found as far as the Pacific Region, an

indicator that regulators have already interpreted innovation as a public policy priority.[40] For financial health, innovation may need to look different. Government policies have an opportunity to define expectations from the innovation community. This may include creating space for new entrants to easily access markets with new ideas or sharing data publicly so innovators can invest more in solutions.

Public policies for financial health will rely on strong measurement capacity and clarity of vision. However, policymakers cannot rely on these alone to lead the business of finance towards more financially healthy customers. The process of defining the policy objectives will need to account for potential trade-offs. For example, interest rate caps on microloans are a public policy paradox: they may reduce the cost of borrowing but also will increase the cost of lending[41]. Many legislators have found it difficult to accept that small loans to poor people generally cost more than normal commercial bank rates. Though meant to protect consumers, interest rate ceilings almost always hurt the poor.[42]

Conversely, there are likely strong synergies between financial health outcomes and systemic stability. For example, a client's ability to weather shocks more readily can dampen the negative impact of emergencies. It has been established that the guiding principles of financial inclusion are synergistic with systemic stability, integrity, and consumer protection. CGAP, a think tank in the World Bank Group, has noted that "under the right circumstances, financial inclusion, stability, integrity, and consumer protection (collectively referred to as I-SIP) can be positively related, and the failure to consider any one of these objectives can lead to problems."[43] Policies and regulations for financial health should seek to identify similar synergies. It may be fair to assume that a public policy framework built on these synergies will be more resilient.

Regulating financial health: More to learn

Laws and regulations are not neutral. They can empower or discriminate. Therefore, their intent matters. For financial health, the intent of regulation should be to engender trust in the financial system and enable more choice. When people trust a system, it implies that it meets at least their basic needs. Feeling like you have suitable choice empowers people to make decisions that match their expectations and available resources. Regulations can drive trust in the financial services by ensuring that assets are protected, services are fair, and institutions treat clients with dignity. Choice can be enabled by reducing the dominance of a few players, lowering barriers to entry (for customers and innovators), and providing equitable access to essential payment infrastructure.

It is still too early to conclusively determine what the enabling regulatory environment for financial health should be. However, we still encourage governments to be intentional about the impact of their existing regulations on financial health. For example, using appropriate measurement frameworks to assess how regulations contribute to meaningful financial health.

40. https://www.findevgateway.org/slide-deck/2019/07/cgap-world-bank-regulatory-sandbox-global-survey-2019
41. https://www.findevgateway.org/paper/2015/07/impact-interest-rate-ceilings-microfinance-industry
42. https://www.findevgateway.org/paper/2015/07/impact-interest-rate-ceilings-microfinance-industry
43. https://www.cgap.org/research/publication/financial-inclusion-stability-integrity-and-protection-philippines

Emergent domains: Protection, Privacy, Competition, and Infrastructure

There are several regulatory domains that contribute meaningfully to higher quality financial inclusion, but their contribution to financial health is less clear. For example, consumer protection rules have emerged as a logical starting point to explore the direction of the relationship between regulations and financial health outcomes, particularly regarding defined standards of practice for customer redress, disclosure requirements, and service transparency.

Privacy, competition, and payment infrastructure are other examples of regulatory domains where governments should observe their potential impact on the enabling environment for financial health. Privacy rules, such as those proposed in the European Union(EU)'s General Data Protection Regulation (GDPR), are critically important as services are more technology-driven and erosion of customer confidence risks driving low-income customers back to informal systems.[44,45] Market dominance by incumbent service providers in maturing markets risk excluding new entrants who may bring innovative ideas that promote financial health.[46,47] Payment infrastructure that is accessible and affordable contributes to more inclusive services, especially when it is interoperable and, in the case of mobile money, mobile numbers are portable.[48,49]

Abuse of digital lending: An emerging threat to financial health

A less clear regulatory space is the governance of digital lending, whose rapid growth has had a measurable negative impact on financial health.[50] Millions of Kenyans are at the forefront of the digital reimagining of microcredit. According to research from Financial Sector Deepening, more than half of the loans issued in Kenya are digital. As of 2018, over two million digital loans below USD 10 are non-performing (a key indicator of a mismatch between product and customer).[51] Until new regulations in Kenya are passed, these numbers are likely to increase further.[52]

Digital credit products vary by market but often share basic characteristics. Most are managed by non-bank service providers who offer low-value loans at high-interest rates. Nearly all are enabled by algorithm-powered alternative data (such as location, social media, mobile phone activity, etc). The Centre for Financial Inclusion notably reflected that "[digital credit] algorithms are optimized to predict repayment accurately, but don't factor debt stress into the model ex-ante."[53] This is a bellwether for policymakers monitoring this evolution of digital finance.

44. https://gdpr-info.eu/issues/privacy-by-design/
45. https://www.businessinsider.com/facebook-twitter-social-media-confidence-charts-2018-8
46. https://businesstoday.co.ke/m-pesa-dominance-of-mobile-money-transfer-market-nears-100m-pesa-market-share-safaricom-dominance-safaricom-m-pesa-peter-ndegwa/
47. https://www.itu.int/en/publications/Documents/tsb/2017-DFS-TechInnovationCompetition/files/basic-html/page204.html
48. https://ec.europa.eu/digital-single-market/en/number-portability
49. https://www.ifc.org/wps/wcm/connect/d16ceebb-1853-4a2a-89f3-52985f8e5134/IFC+Tanzania+Interoperability+Case+Study.pdf?MOD=AJPERES&CVID=lA4tZDN
50. https://evans.uw.edu/policy-impact/epar/digital-credit-products-india-kenya-nigeria-tanzania-and-uganda
51. https://www.fsdkenya.org/research-and-publications/inclusive-finance/
52. https://www.the-star.co.ke/business/kenya/2020-08-04-proposed-law-to-regulate-digital-lenders-goes-for-public-hearing/
53. https://www.centerforfinancialinclusion.org/its-time-to-protect-kenyans-from-a-digital-lending-laboratory

Yet the regulatory environment for this form of low value/high volume digital credit is still unclear. There are clear benefits readily available to manage short-term economic shocks, such as job loss or medical emergency. There also must be measures in place to protect customers from abuse. Licensing of non-bank providers, which govern many digital lenders in emerging markets, has provided a gateway for better payment services, particularly those that use mobile phones. But those licensing frameworks were not designed to also bear the weight of digital lending in its evolving form. Non-banks should be held to the same standard as traditional providers in terms of protecting a customer's interests and conduct of business. Oversight of data use is another critical area where regulatory reforms are needed to better manage digital lending. Nearly all large-scale digital credit products utilize alternative data sources. Most customers do not realize their data is being used to this extent or, if they do, are not aware of their right.[54] This can result in violations of their privacy or unauthorized sharing of personal information. Regulators can play a role to ensure providers use data responsibly and are held accountable for doing so.

Improving the capacity of borrowers and re-imagining the role of the credit bureau are other ways in which policymakers and regulators can oversee digital lending. Growth in digital lending is trending upwards, as indicated by the high demand, despite the risks. Regulating it from the perspective of financial health will help to balance its harmful-if-unchecked algorithmic nature with the clear benefit to people when used (and offered) responsibly.

Inspect what you expect: oversight and supervision

Regulators can hold financial institutions accountable to standards of practice that enable financial health outcomes. Systems for accountability typically include the supervision of financial institutions and oversight of critical infrastructure. These systems are most effective when used in tandem with industry dialogue and openness to innovation. However, regulatory influence derives from the enforcement mandate that underpins supervision and oversight.

Improving data collection and analysis by supervisors is critical to identify areas of non-compliance and justify enforcement action, if necessary. Hence the crucial role of measurement of financial health by policymakers and regulators. Supervisors should invest in understanding the importance of financial health and the policy intent that regulations are responsible for delivering. Supervisors benefit from frequent engagement with providers and are keenly aware of the strengths and weaknesses of financial institutions, often better than their policymaker counterparts, who are further removed from day-to-day operations. This 'on-the-ground' knowledge puts supervisors in a vital position to identify when financial institutions deviate from (or toward) good practices.

Supervisors also have the unique capacity to conduct onsite audits and field visits to assess compliance. This is a unique opportunity to focus on financial health-related operations and customer engagement. Supervisors should not be confused with field researchers. They are already understaffed and under-resourced. However, they should be empowered to pay special attention to regulatory domains that impact financial health, such as compliance with customer protection or data privacy rules. Equally, supervisors should ensure that corporate governance puts the financial health of customers as

54. https://www.cgap.org/blog/3-data-protection-approaches-go-beyond-consent

a metric of institutional performance. This would likely require a mix of encouraging standards for internal key performance indicators (KPIs) as well as requiring compliance reporting. The UK's Financial Conduct Authority' Treating Customers Fairly strategy demonstrates how regulators can hold the sector accountable.[55]

Game changer: Empowering consumer groups

The most significant way policymakers and regulators can promote financial health is to engage directly with consumers. The prevailing model is limited to dialogue between the regulators and the regulated. This model must adapt if policymakers and regulators want to reap the systemic and individual benefits of a financially healthy society. Consumer groups have already demonstrated the capacity to advocate for their needs and ensure service providers act responsibly. Institutions like Consumers International champion many of the processes and approaches needed to ensure governments can effectively consult the needs of consumers in policy design.[56]

Financial health is also experienced differently by different segments of the population. Women, youth, small businesses, farmers, all have different needs and are all critical to a functioning economy. Local consumer groups representing these segments should be sought out by policymakers and regulators. National financial inclusion strategies and economic development plans often make specific reference to these segments. This is an essential first step to give regulators and policymakers the resources needed to engage priority consumer segments.

Active engagement with consumer groups will allow policymakers to triangulate supply-side data, demand-side data and consumers' voices. Policymakers and regulators will invariably have to make hard choices and accept the trade-offs. Not all segments can be served equally, and not all service providers will enjoy competitive advantages. **However, when public policy prioritizes financial health, invests in its measurement, and defines a shared vision, the trade-offs may be offset by clear synergies**. More work is needed to identify such synergies and inform the nascent financial health policy and regulatory best practices.

55. https://www.fca.org.uk/publication/archive/fsa-tcf-culture.pdf
56. https://www.consumersinternational.org/what-we-do/consumer-protection/global-policy-cooperation/

Conclusion

Financial health is an intricate subject, more layered and complex than the relatively straightforward concept of financial inclusion. With its focus on outcomes, financial health is arguably a more customer-centric approach, one that offers principles to define impact more holistically, measure it systematically and create it in a sustained and meaningful manner.

Financial health is not an end in itself. It is an enabler that allows people, societies, and markets to be resilient and innovative. This means that both public and private market actors need to work in concert to achieve financial health outcomes which in turn enable the realization of the Sustainable Development Goals (SDGs).

For **financial institutions and fintechs** working to develop financial solutions for customers, financial health is a fresh lens with which to examine people's needs and aspirations, not to mention if interventions are in fact improving their lives. This kind of approach has both social and commercial benefits, allowing organisations to build more financially healthy customers, and by implication, the financial health of their institutions.

For **governments and public institutions**, financial health is a key objective reflected in their broader mandates to ensure the safety, productivity and welfare of their citizens. A financial health lens is then useful to formulate and enforce financial policies and regulations that underlie public initiatives such as responsible financial education, customer protection, decent jobs and social safety mechanisms that improve the financial health of individuals and communities.

For the **development and donor community** that has been focused on impacting customers' lives through financial inclusion or the provision of affordable financial services, the financial health approach can offer a larger and more comprehensive perspective to measure, create and sustain impact. A financial health lens is needed to revisit and recast our efforts in financial inclusion, and to understand what products, in what bundles and in what settings contribute to the financial health of customers.

Today, we are at a critical juncture. COVID-19 has exposed the dramatic inequities that persist across global communities. For all of the gains achieved in the SDG agenda since 2015, COVID-19 has reversed or erased many of them, particularly among the most vulnerable communities in the global financial ecosystem. Without ensuring that global, regional and local economies are resilient, any SDG advancements will not be enduring. Financial health offers the best chance that individuals, communities, and local economies will not only be able to experience sustainable development but also maintain it. In the end, collective, concerted action is the clearest pathway towards the achievement of the SDGs, and towards securing financial health for all.

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Annex 1: Financial Health Definitions

Source/Organization	Definition	Financial Security	Financial Freedom	Financial Control
Consumer Financial Protection Bureau (CFPB), 2017	Financial well-being is a state of being wherein a person can fully meet current and ongoing financial obligations, can feel secure in their financial future and is able to make choices that allow them to enjoy life.	✓	✓	✓
Financial Health Network, 2016	Financial health is a composite measurement of a person's financial life. Unlike narrow metrics like credit scores, financial health assesses whether people are spending, saving, borrowing, and planning in a way that will enable them to be resilient and pursue opportunities over time. Financial health comes about when an individual's daily financial systems help them be resilient and pursue opportunities over time	✓	✓	✓
Gallup Global Financial Health Study, 2018	Respondents are considered to be financially secure if BOTH of these situations apply to them: 1. They could cover ALL of their basic needs, like food, housing and transportation, for more than six months if they lost their income and had to survive only on their savings or things they could sell 2. Making payments to pay back the money they owe does not make it difficult for them to pay for the other things they need.	✓		✓
National Credit Union Foundation, 2015	Where people feel in control of their day-to-day and month-to-month finances; have capacity to absorb financial shock; are on track to meet financial goals; and have the financial freedom to make choices that allow them to enjoy life	✓	✓	✓
Muir et al, 2018	Financial wellbeing is when a person is able to meet expenses and has some money left over, is in control of their finances and feels financially secure, now and in the future.	✓	✓	✓

Common Wealth Bank of Australia and Melbourne Institute, 2018	Financial wellbeing is the extent to which people both perceive and have: 1. financial outcomes in which they meet their financial obligations, 2. financial freedom to make choices that allow them to enjoy life, 3. control of their finances, and 4. financial security— now, in the future, and under possible adverse circumstances.	✓	✓	✓
Kempson et al, 2017	The extent to which someone is able to meet all their current commitments and needs comfortably, and has the financial resilience to maintain this in the future.	✓		
Prawitz et al, 2006	The level of stress and well-being emanating from one's personal financial condition.			✓

Annex 2: Financial Health Measurement Frameworks

Organization	Indicators	Financial health classification	Type of data
Financial Health Network *Eight Ways to Measure Financial Health* (2016)	**Spend**: Difference between income and expenses **Spend**: Share of bills that are spent on time and in full **Save**: Number of months of living expenses in liquid account balances **Save**: Amount of one's long-term savings, assets and investments **Borrow**: Debt-to-income ratio **Borrow**: Credit score or credit quality tier **Plan**: Type and extent of insurance coverage **Plan**: Behaviours that demonstrate future financial orientation	Responses are scored 0-100 (pre-defined). The financial health score is the average of the eight questions and is interpreted as follows: 0-39 "Vulnerable"; 40-79 "Coping"; 80-100 "Thriving".	Transaction data and/ or customer survey
Consumer Finance Protection Bureau, *Financial well-Being in America* (2017)	How well does this statement describe you or your situation? [*Completely, Somewhat, Very little, Not at all*] • I could handle a major unexpected expense • I am securing my financial future • Because of my money situation, I feel like I will never have the things I want in life • I can enjoy life because of the way I'm managing my money • I am just getting by financially • I am concerned that the money I have or will save won't last How often does this statement apply to you? [*Always, Often, Sometimes, Rarely, Never*] • Giving a gift for a wedding, birthday or other occasion would put a strain on my finances for the month • I have money left over at the end of the month • I am behind with my finances • My finances control my life	The ten responses are converted into a single score that ranges between 0-100. Note that CFPB applied the item response theory (IRT). During research and testing, CFPB found that respondents answered the questions slightly differently depending on their age group (i.e. "working age adults" under 62 and "older consumers" 62+) or whether the survey was self- versus interviewer-administered. The IRT method accounts for these differences, so that the scores can be compared across groups. IRT also accounts for relatedness to financial well-being and degree of severity while scoring.	Customer survey

Kempson et al, *Financial Well-Being: A Conceptual Model and Preliminary Analysis* (2017)	1. How often do you run short of money for food or other regular expenses? (frequency scale) 2. How often are you overdrawn on your bank account?(frequency scale) 3. Which one of the following statements best describes how well you are able to pay your bills and credit commitments at the moment? (without any difficulty; it is a struggle from time to time; it is a constant struggle) 4. In the past 12 months, how often have you been unable to pay bills or loan commitments at the final reminder due to lack of money? (frequency scale) 5. How often do you have money left over after you have paid for food and other regular expenses? (frequency scale) 6. How would you describe your current financial situation? (5-point scale from very bad to very good 7. How confident are you about your financial situation in the next 12 months? (5-point scale from not at all confident to very confident) 8. How in control of your finances do you feel you are? (5-point scale from very little /no control to totally in control) 9. If tomorrow, you had to meet an unexpected expense that is equivalent to one month's income for your household, how much of it would you be able to cover from the money you have available? 10. Would you need to borrow, overdraw your account or use a credit card to meet an unexpected expense of a month's income? (scale: all of it; some of it; none of it 11. If your income fell by a quarter, for how many months could you meet all your expenses without needing to borrow? 12. Thinking about the total income of your household how many months' income do you have in savings?	These questions form part of the financial well-being scale that includes both subjective and objective, self-reported measures of financial well-being. The measures were identified and constructed through survey variables using principal components analysis (PCA). These questions form part of a more extensive questionnaire that includes questions on the direct and indirect influencers of financial well-being.	Customer survey

Gallup, Global Financial Health Study (2018)	**Financial Control** • You believe you can change your financial situation • You believe you can overcome any financial problem • You don't regret spending on nonessential items • You have been able to save in the past • You don't avoid thinking about how you are going to pay for things in the future • You believe you will be able to repay your debts • You enjoy planning what to do with your money • You are satisfied with your level of input on financial decisions in the household • You could find the money to pay for a financial emergency if it were to arise today • You have people who can help you financially **Financial Security** • Suppose you lost your income and had to survive only on your savings or things you could sell. How many months will you be able to cover all your basic needs, like food, housing, and transportation? [less than 1 month; 1-3 months; 4-6 months; more than 6 months] • Does making payments to pay back the money you owe make it very difficult, somewhat difficult, or not at all difficult for you to pay for the other things you need?	The **financial control** metric is the count of all positive responses. Respondents with a score of 8-10 are considered to have financial control. Three categories of **financial security**: • Secure: Respondents who can cover all of their basic needs for more than six months and repaying money they owe does not make it difficult for them to pay for the other things they need • Stretched: Neither secure nor insecure • Insecure: Respondents who can cover all of their basic needs for less than one month or repaying money they owe makes it "very difficult" for them to pay for the other things they need	Customer survey

Commonwealth Bank of Australia (CBA), Melbourne Institute (MI) Using survey and banking data to measure financial well-being (2018)	**Self-reported scale:** 1. In the last 12 months, how difficult was it for you to meet your necessary cost of living expenses like housing, electricity, water, healthcare, food, clothing or transport? [Very difficult 0; Difficult 1; Neither difficult nor easy 2, Easy 3, Very easy 4] 2. How well do the following statements describe you or your situation? [Not at all 0; Very little 1; Somewhat 2; Very well 3; Completely 4] • I can enjoy life because of the way I am managing my money • I could handle a major unexpected expense • I am securing my financial future 3. How often do the following statements apply to you?[57] [Never 0; Rarely 1; Sometimes 2; Often 3; Always 4] • My finances control my life • I have money left over at the end of the month • Giving a gift for a wedding, birthday or other occasion would put a strain on my finances for the month 4. When it comes to how you think and feel about your finances, please indicate the extent to which you agree or disagree with the following statements? [Disagree strongly 1, Disagree 2, Neither agree nor disagree 3, Agree 4, Agree strongly 5] • I feel on top of my day-to-day finances • I am comfortable with my current levels of spending relative to the funds I have coming in • I am on track to have enough money to provide for my financial needs in the future	**Self-reported financial wellbeing** score is the sum of responses to all 10 questions multiplied by 2.5. This results in a 0-100 scale in which larger values indicate higher amounts of self-reported financial wellbeing.	Transaction data and customer survey (CBA customers)

57. This question draws from the Consumer Finance Protection Bureau (CFPB)'s 10-point financial well-being scale

	Observed measure 1. Number of months in the last year with payment dishonours [7 or more months 0, 1-6 months 1, None 2] 2. Any payday loans in the last year? [Yes 0, No 1] 3. Days in last year with liquid balances below one week's average expenses [75% or more 0, 1% to 75% 1, Never 2] 4. Days in last year during which customer had the ability to raise one month's expenses from savings or available credit [25% or less 0, 25% to 99% 1, Always 2] 5. Age-normed percentile of customer's median savings balance over last year [Below 35th 0, 35th to 90th 1, Above 90th 2]	**Observed financial wellbeing** score is the sum of responses to all five questions multiplied by 100/9. This results in a 0-100 scale in which larger values indicate higher amounts of observed financial wellbeing.	
Innovations for Poverty Action (IPA), *Measuring Global Financial Health*, (2020)	**Financial resilience measure**[58] 1. Imagine that you have an emergency, and you need to pay [*insert 1/20 of GNI per capita in local currency units*]. What would be the MAIN source of money that you would use to come up with [insert 1/20 of GNI per capita in local currency units] within the NEXT 30 DAYS [*Savings; Family, relatives or friends; Money from working; Borrowing from a bank, employer or private lender; Selling assets; Some other source; I could not come up with the money*] 2. How difficult would it be for you to come up with [insert 1/20 of GNI per capita in local currency] within the NEXT 30 DAYS? [*Very difficult, Somewhat difficult, Not difficult at all*] 3. How difficult would it be for you to come up with [*insert 1/20 of GNI per capita in local currency*] within the NEXT 7 DAYS? [*Very difficult, Somewhat difficult, Not difficult at all*]		Customer survey (conducted in seven countries)

58. Questions are similar to the World Bank Findex Survey but with an additional timeframe

Financial Sector Deepening (FSD) Kenya, *Inclusive Finance? Headline Findings from Finaccess 2019*. (2019)	**Ability to manage day-to-day:** • Never went without food during the last year • Doesn't have trouble making ends meet between income cycles • Has a plan/budget for allocating income and expenses **Ability to cope with risk:** • Never went without medicine in the last year • Regularly kept money aside for emergencies • Can get hold of a lump sum in three days **Ability to invest in the future:** • Using savings or credit to invest in productive assets • Education or old age; is using/plans to use savings • Pension or investment income to make ends meet in old age; has been regularly putting aside money for the future	The financial health index is the sum of the equally weighted score of 11.3 points assigned to the nine survey questions. An individual is considered to be financially healthy if he/she satisfies at least six of the nine questions.	Customer survey
Centre for Financial Inclusion and Financial Health Network: *Beyond Financial Inclusion: Financial Health as a Global Framework* (2017)	• Balance income and expenses - Success in shaping income and expenditure in order to meet daily needs and financial obligations. • Build and maintains reserves - Steady saving and savings replenishment behaviour, and the magnitude and liquidity of current reserves, including "economic value" in any form (cash, in-kind, assets, etc). • Manages existing debts and has access to potential resources - How manageable current formal and informal debt is, and what resources a person can call upon through formal and informal sources. • Plans and prioritizes - Time horizon for planning, types of goals, action steps towards goals, and confidence in one's financial future • Manage and recovers from financial shocks - How well a person can leverage financial resources to weather and recover from an economic shock. Uses an effective range of financial tools	N/A	Customer survey

Unlocking Public and Private Finance for the Poor

The UN Capital Development Fund offers "last mile" finance models that unlock the public and private resources, especially at the domestic level, to reduce poverty and support local economic development.

UNCDF's financing models work through three channels: (1) inclusive digital economies, which connects individuals, households, and small businesses with financial eco-systems that catalyze participation in the local economy, and provide tools to climb out of poverty and manage financial lives; (2) local development finance, which capacitates localities through fiscal decentralization, innovative municipal finance, and structured project finance to drive local economic expansion and sustainable development; and (3) investment finance, which provides catalytic financial structuring, de-risking, and capital deployment to drive SDG impact and domestic resource mobilization.

At MetLife Foundation, we are committed to expanding opportunities for low- and moderate-income people around the world. We partner with nonprofit organizations and social enterprises to create financial health solutions and build stronger communities, while engaging MetLife employee volunteers to help drive impact. MetLife Foundation was established in 1976 to continue MetLife's long tradition of corporate contributions and community involvement. From its founding through the end of 2020, MetLife Foundation provided more than $900 million in grants and $87 million in program-related investments to make a positive impact in the communities where MetLife operates. Our financial health work has reached more than 13.4 million low- and moderate-income individuals in 42 countries. To learn more about MetLife Foundation, visit metlife.org.

Innovate Implement Impact

The i3 Program works in Bangladesh, China, Malaysia and Vietnam to leverage digital technology and uncover deep insights into low- and moderate-income people's needs, aspirations and behaviours to build and deliver financial services for the mass market.

Centre For Financial Health

The Centre for Financial Health, housed in Singapore, acts as a convener, providing a platform to bring together global, regional and local actors committed to using financial and digital solutions to improve the financial lives of low-income families—helping them climb – and stay – out of poverty. The Centre creates space for thought leadership where best financial health practices and models are exchanged and lead to concrete action with governments and the private sector.

The Centre is implementing programmes in different countries called Living Labs, in-country platforms which support players with a combination of high quality financial, advisory and networking support to design, test and scale financial health solutions.

For more information on the Centre, contact:

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