

A Note on Financial Health

Financial health as a concept is nothing new. However, it took root as an approach with which to design and deliver financial interventions only recently with pioneering work by organisations such as the Financial Health Network, the Consumer Financial Protection Bureau, the Center for Financial Inclusion and others.

By definition, financial health encompasses three important aspects of an individual's financial life: financial security, financial control, and financial freedom¹. The following definition more or less captures these three dimensions.

"The ability to meet one's ongoing commitments, now and in the future, and under adverse circumstances, feel in control of one's finances and the ability to meet one's financial goals and enjoy things one values."²

Let's look at this definition closely. The first part of this definition is a measure of an individual's financial security, typified by the ability to navigate one's daily life and the financial capacity to navigate one's future by securing it. It also includes the ability to respond to and recover from shocks, or **financial resilience**. Financial security can be likened to the statement "what is good (financial) life **in general**"³, a blanket statement applicable to everybody.

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.

The third part of the definition emphasises financial freedom or wiggle-room beyond the basic needs of food, shelter, etc. to afford things one enjoys. Financial freedom can be likened to "what is the good (financial) life **for you?**"⁴, a subjective statement defined by the individual. In a sense, financial freedom can be considered a step-up from financial security, a condition made possible by adequate financial security and perceptions of financial control.

Table: Financial health dimensions and related outcome questions

Financial Health Dimension	Outcome Questions
Financial Security	<p>Are people able to manage their financial commitments on a day-to-day basis?</p> <p>Are people able to secure their financial futures or do they demonstrate a forward-looking attitude with regard to their financial lives?</p> <p>Are they able/prepared to handle both small emergencies and large shocks... or in other words, are they financially resilient?</p>
Financial Control	<p>Are they confident about their financial situation, now and for the future?</p> <p>Do they believe they have the ability to make changes to their financial life for the better?</p>
Financial Freedom	<p>Are they able to stay on track to meet their financial goals?</p> <p>After paying off essential expenses and earmarking savings, is sufficient money left over for doing things they enjoy?</p>

Source: UNCDF's working paper on financial health, Section 2: The Building Blocks of Financial Health

¹ 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

² Drawing from definitions by Consumer Financial Protection Bureau (2017), Muir et al (2017), Kempson et al (2017), University of Melbourne, and Commonwealth Bank of Australia (2018).

³ Drawing from the Nicomachean Ethics in Aristotelian philosophy

⁴ Drawing from the Nicomachean Ethics in Aristotelian philosophy