

Understanding and Measuring Financial Health

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CENTER *for*
FINANCIAL
INCLUSION

ACCION

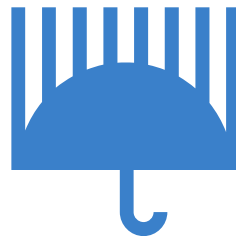
What is Financial Health?

Financial health has three elements:

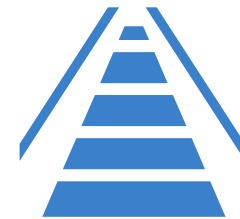
Balanced daily systems,
Resilience – ability to weather financial shocks
Ability to pursue important life goals



Day-to-Day



Resilience



Goals

"I spend more than what comes in—that's unhealthy"

—Betty | Nairobi, Kenya

"Financial stability is when you don't have to ask other people for help"

—Abraham | Nyahruru, Kenya

"Financial health is when I have what I need every day"

—woman from small group | Sinnar, India

"When you have no debt, that's when you're healthy."

—woman from small group | Sinnar, India

People across the world use similar words to describe financial health.

They desire to manage money effectively to meet **day-to-day needs**, pursue **opportunities**, and build **resilience**.

"Financial health is when you can pay your bills and have money left over."

—Phoebe | Nairobi, Kenya

"Financial health is a house and a good salary"

—Rahul | Mumbai, India

We will be financially healthy when all of us three brothers start earning and we start earning more"

—Yogesh | Sinnar, India

Why Is Financial Health So Important?



- It is an intuitive, universal and robust concept – understood by everyone from poor clients to high level policy makers
- Most people want to be financially healthy and employ financial strategies toward that end
- If financial services are to have an impact on poverty, it will occur through improvements in financial health
- Financial health is arguably the core objective of financial inclusion

Financial Health Indicators for the Developing World

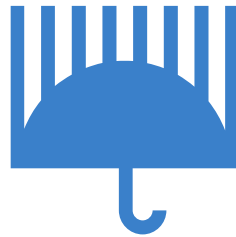
An individual is financially healthy when he or she:



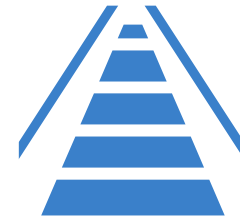
How Financially Healthy Are YOU?



Day-to-Day



Resilience



Goals

bit.ly/cfipoll

Initial Research in Kenya and India

Healthy Financial Behaviors, Successful Financial Strategies

Across our sample, we saw people managing their finances using these strategies:

Shaping Income & Expenses

Building Reserves

Cultivating Receivable

Planning and Prioritization

These behaviors are deeply linked to their social and economic endeavors.



Jointly conducted by CFSI, CFI and Dalberg

Context: Informality

Informality was a reality – and a methodological hurdle.

Social relationships and informal networks formed the backbone of financial strategies

Formal services played a limited role.

For researchers, this meant:

- No available checkable numbers (e.g., accounts, loans)
- Questions and answers are often subjective (see photo)

Those who work in the formal sector, earn higher income, and have more formal education tend use more formal financial services.



Context: Low and Volatile Incomes

Many people's incomes were irregular, unpredictable, and often low. More than any other single factor, income dynamics drove people's financial behaviors.

We saw that at some **income threshold** people struggle just to meet basic food needs. They suffer **frequent scarcity** and significant **financial stress**. They have only limited ability to use financial strategies to improve their well-being.



“We hardly manage food and sleep, why are you talking to us about pensions?”

CFSI

- Shruti, Dharavi, Mumbai, India

Shaping Income and Expenses

People **shape income** to **better cover expenses** and **pursue their goals**.

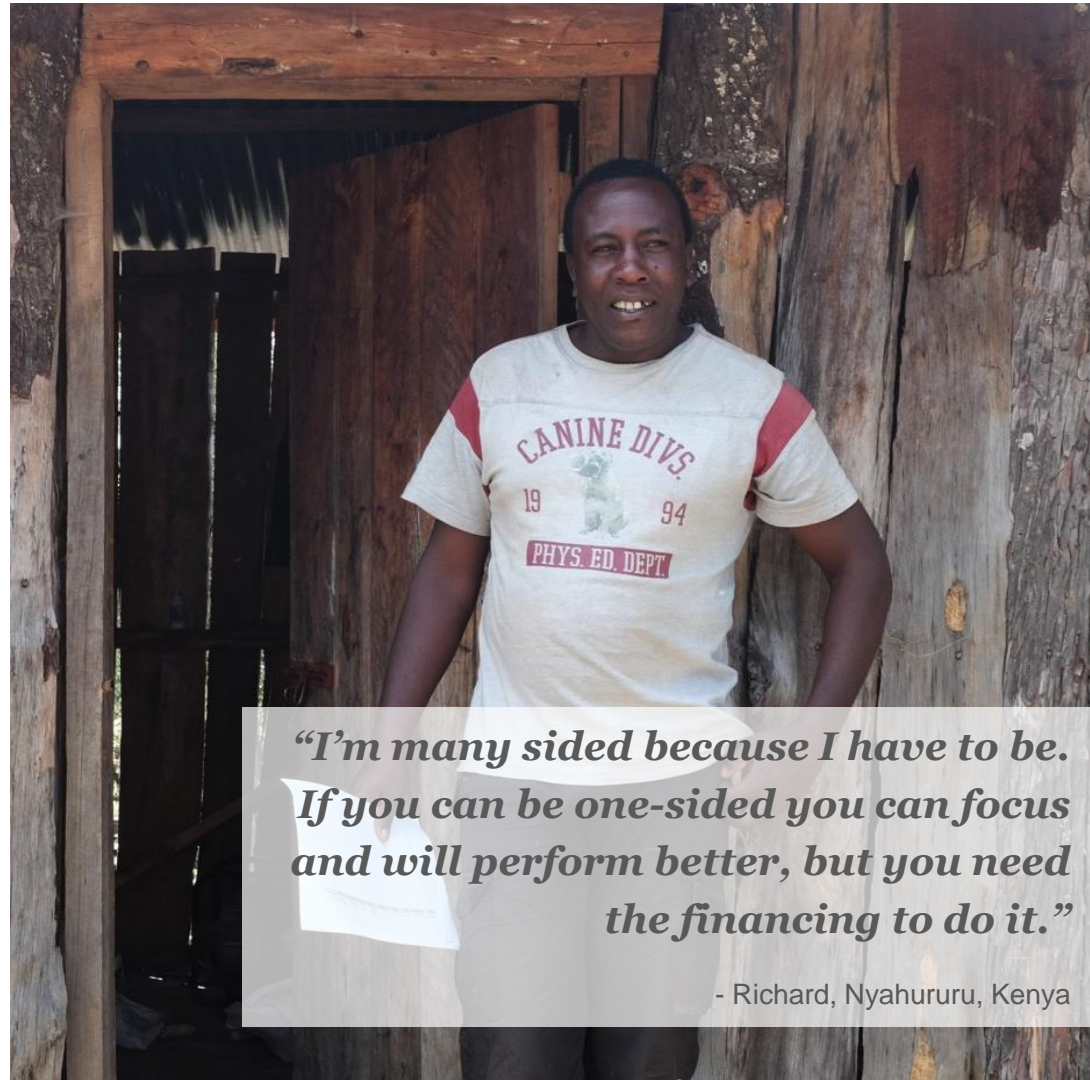
They also work to shape expenses to tailor financial outflows to their income.

Ways of **shaping income**

- Focus on growing a single source of income through one income generating endeavor
- Cultivating multiple sources of income to generate more income and hedge against risk of any one dropping
- Smoothing income by pushing current earnings into the future or borrowing against future earnings

Ways of **shaping expenses**:

- Earmarking specific income flows to outflows
- Obligating money to discrete categories of expenses, especially through informal financial networks
- Budgeting and tracking expenses
- Eliminating whole expense categories



“I’m many sided because I have to be. If you can be one-sided you can focus and will perform better, but you need the financing to do it.”

- Richard, Nyahururu, Kenya

Building Reserves

Reserves are net financial and in-kind assets plus social capital. People **build reserves by locking away their money for future use** in a manner that balances their needs for liquidity, returns, and security.

Saving and investing in diverse instruments and assets as money becomes available

Obligating money through informal networks

Automating savings through formal accounts

Investing in working assets that earn income (e.g. livestock, motorbikes.)

Investing in financial assets that earn returns (e.g. interest bearing savings and loans to others.)

Locking value in consumable goods to help insure basic needs are met into the future

Making social contributions that build social capital and deepen the social safety net.



Cultivating Receivables

Ability to obtain financial resources when needed.

- **Cultivating formal lines of credit** by saving with banks, coops, etc.
- **Cultivating informal credit and** saving and investing with informal financial networks
- **Cultivating social safety net** by lending and gifts to family, friends, and neighbors



What Can We Say about Financial Health in Kenya?

Healthy

Balance Income and Expenses

- 71% say they can afford to live modestly

Build and Maintain Reserves

- Half save regularly

Access and Manage Debt

- 58% have borrowed in the past year

Plan and Prioritize

- A significant minority plan for longer than 6 months
- 17% have met some of their financial goals

Manage and Recover from Financial Shocks

- 18% could secure more than \$300 in an emergency

Use a variety of financial tools

- Many use mobile wallets, savings and credit groups, various financial institutions.
- Even the very poor use mobile wallets.

Non-Healthy

Balance Income and Expenses

- 57% have experienced shortfalls in basic needs (80% of very poor)

Build and Maintain Reserves

- More than half would not be able to live from their reserves for more than a month

Access and Manage Debt

- One third find their debt hard to manage (two thirds of the very poor)
- 36% borrow to meet basic needs

Plan and Prioritize

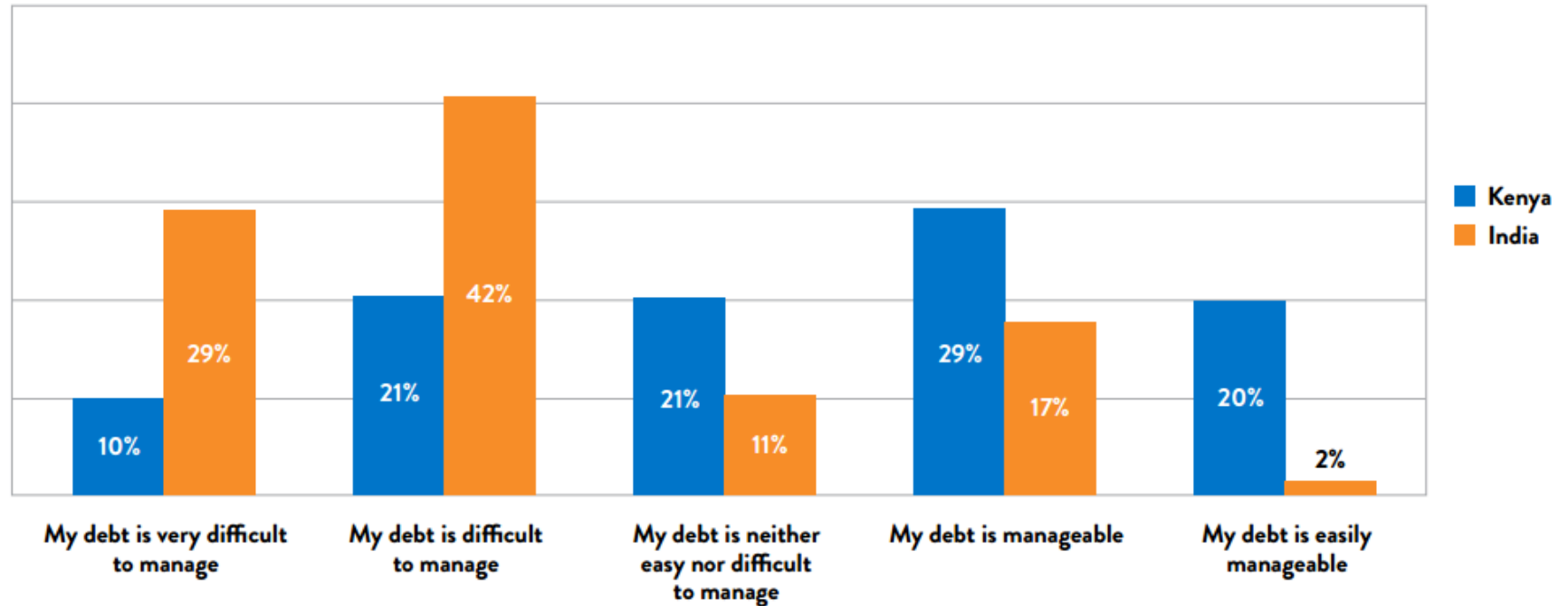
- 30% have no plans for old age
- Half of the very poor make no financial plans

Manage and Recover from Financial Shocks

- For more than half, it would be hard to raise \$60 or more in an emergency

Debt Burden Comparison: Kenya and India Respondents

Figure 4: Perceptions about manageability of debt



Financial Health Global Framework Use Cases



RESEARCHERS:

The financial health framework opens new research avenues, such as the relationship between formal financial services and financial health. For example, does access to a loan or mobile bank account actually improve financial health?

PROVIDERS:

Providers can use research results to modify product suites, improve functionality, or adapt distribution methods, all with the goal of better serving their existing clients and growing their customer base.

POLICYMAKERS:

The financial health framework is important to policymakers, who can use it both to gauge the financial health of a country or region's population and to track progress.

Small Group Discussion

How can your institution use the financial health concept?

Come up with as many specific examples as you can.

Be prepared to share the top three

10 minutes

Accion Employee Financial Health Survey Results

71

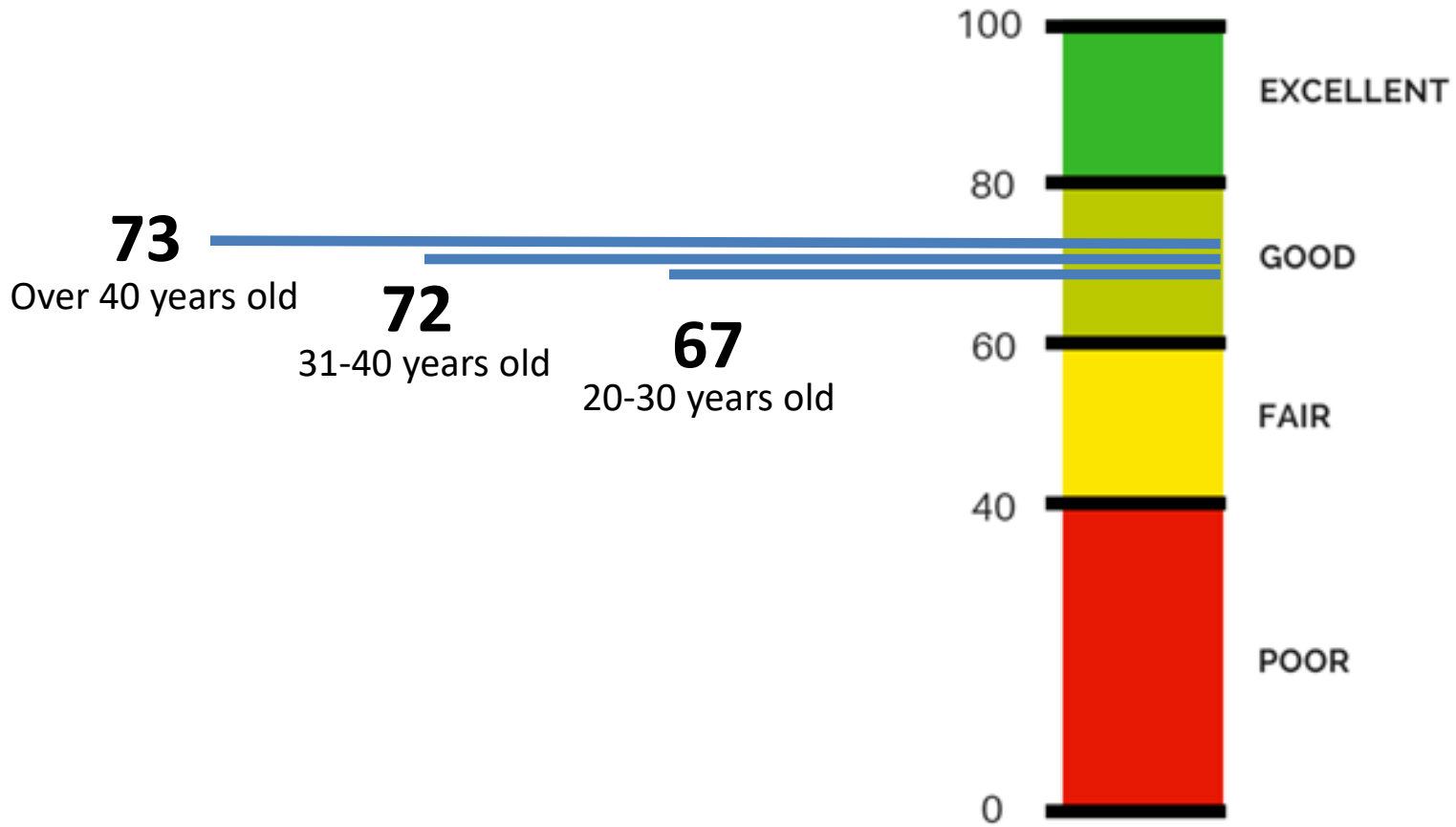
Average Score of
Accion Employees

Standard Deviation: 15



Through this survey Accion identified emergency savings and student loans as two areas of weakness among its staff.

People become financially healthier as they age – to a point

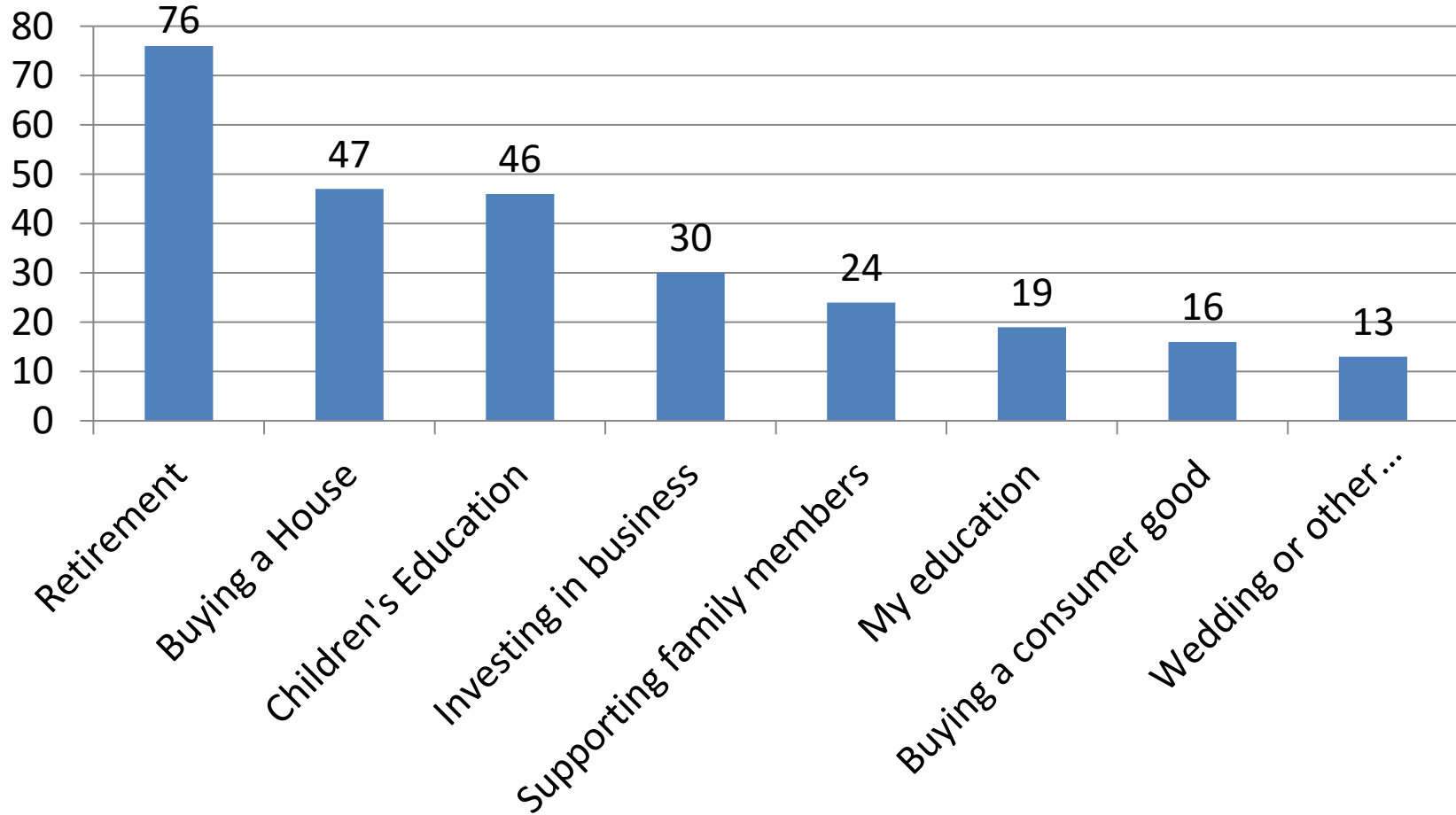


Accion staff survey results

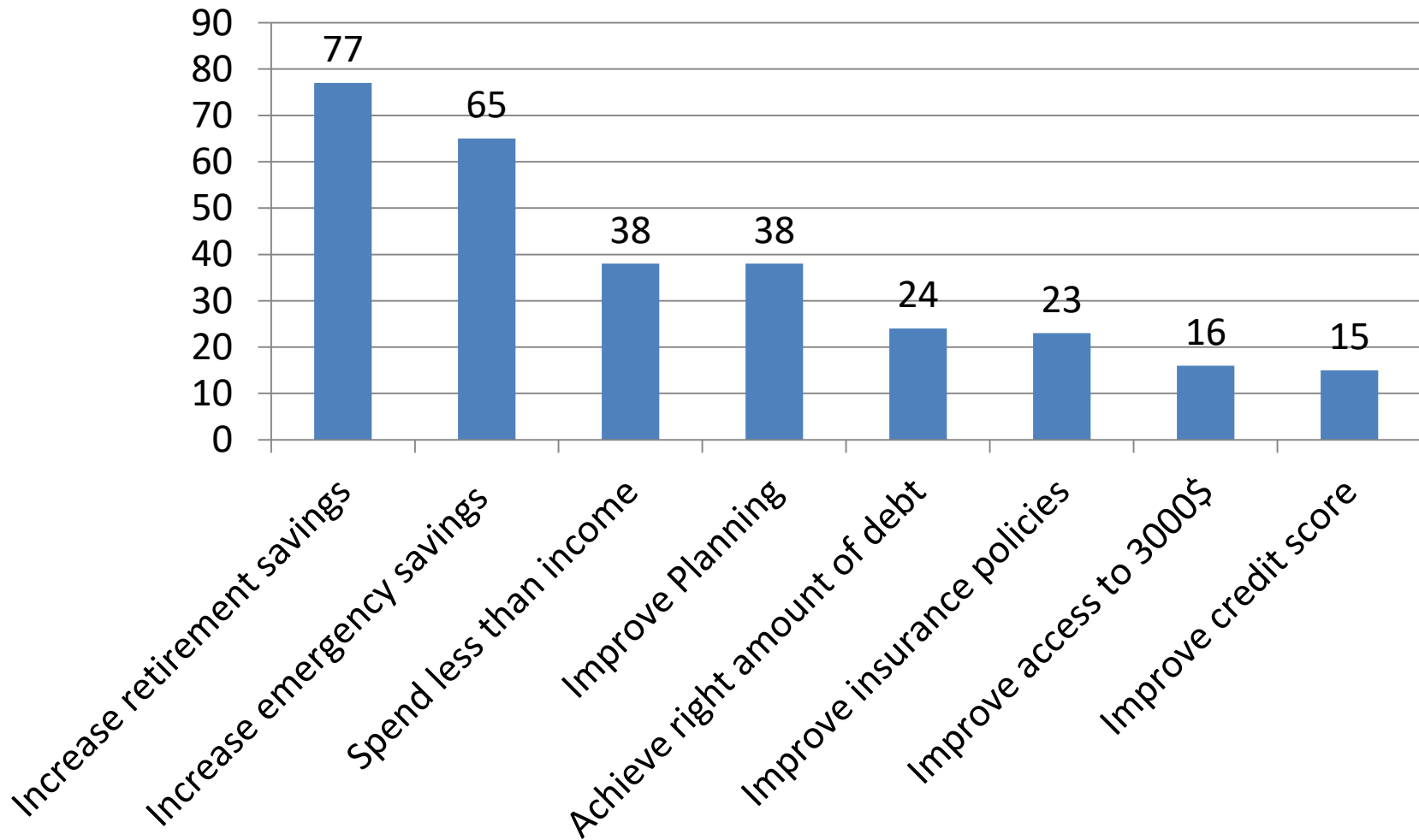
Areas for Improvement at Accion

- Planning Horizon
 - 54% of Accionistas are planning less than six months ahead
 - 24% are not planning ahead at all
- Perceived debt burden
 - 33% state that they have either far too much or a bit too much debt
- Emergency Savings
 - 35% could not live off of their savings for 3 months

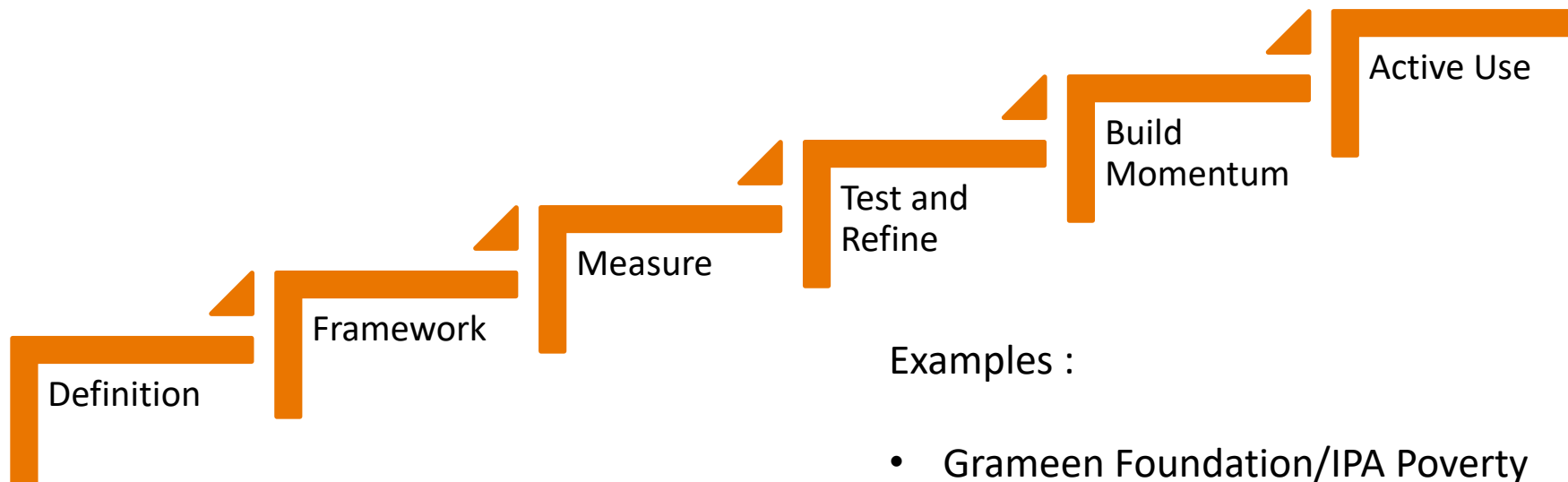
Accion Staff Financial Goals



Accion Staff: Areas of Focus



Measuring Financial Health: Next Steps



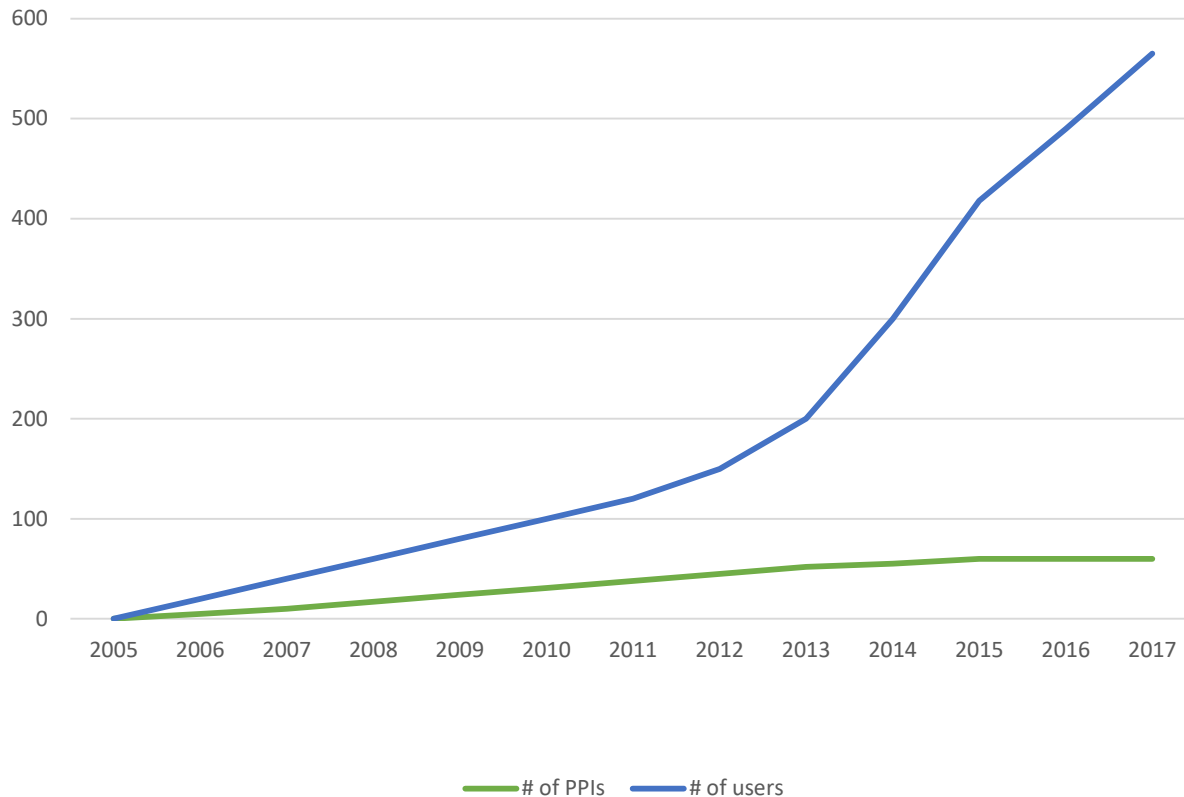
Examples :

- Grameen Foundation/IPA Poverty Probability Index
- IPA's Global Financial Health Project
- The Poverty Stoplight (Fundacion Paraguaya)

A New Tool: Building adoption and use



Growth of PPI - Scorecards and Users



Measuring Global Financial Health Project

Overview



Our Goal:

Building a **holistic** and **quantitative** framework from **intuitive** and **easy-to-understand** indicators

“Access to funds” as the unifying measurable outcome of financial health: *To what extent does finance enable or get in the way of consumption?*

Key principles for the questions:

- Capture information *beyond income and wealth*
- *Monotonic and scorable*
- Aim for measures to be complete and non-overlapping (MECE)

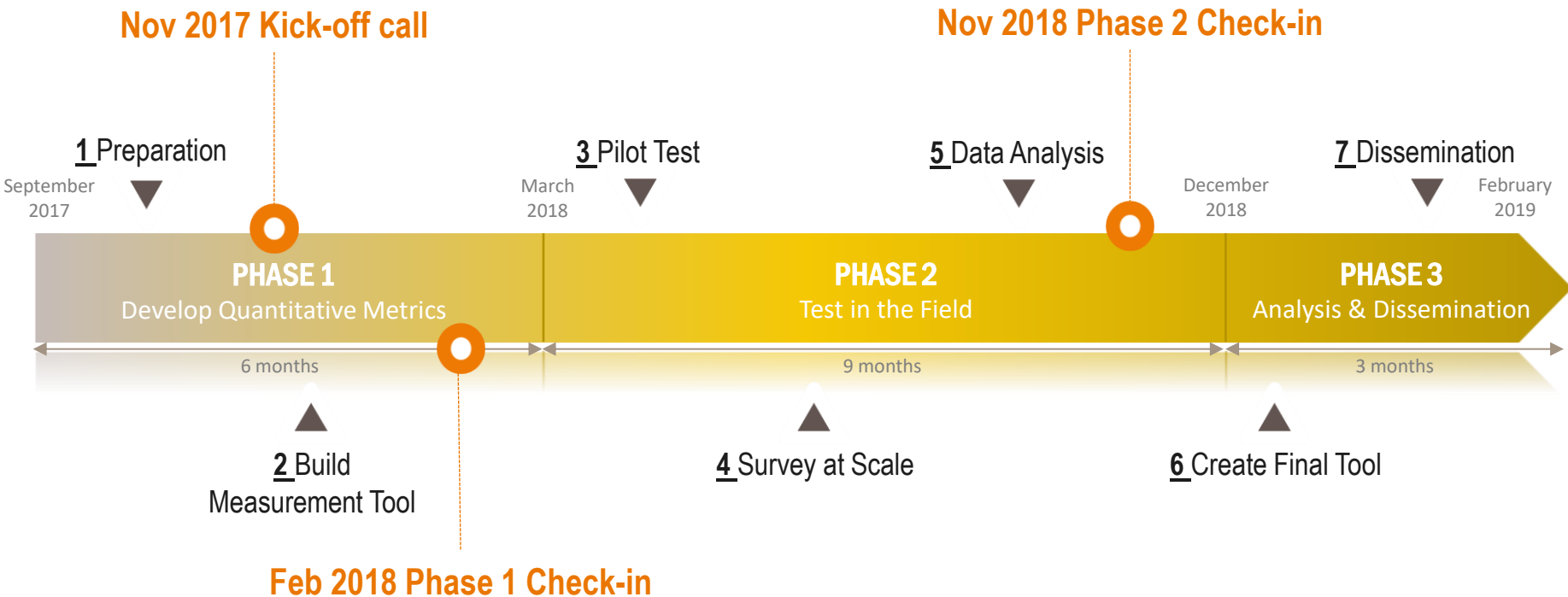
Measuring Global Financial Health Project

Measurement Framework



Group	Category	Financially healthy individuals...
Access	Formal savings	
	Formal credit	
	Formal transfers	
Behavior	Borrowing behavior	Make good decisions about how much and whether to borrow
	Credit repayment behavior	Repay debt in a timely and healthy fashion
	Savings regularity	Save regularly
	Short-term planning	Actively budget and plan short-term finances
	Long-term planning	Plans and saves for longer-term goals
	Awareness of one's own finance	Are aware of their own finance
	Timeliness of planned bill payments	Make planned bill payments in time
	Self-control	Have control over their own spending temptations
	Autonomy	Have autonomy and control over financial decisions within the household
Outcomes	Access to liquidity/funds	Can raise/access additional /outside liquidity, quickly and affordably
	Subjective Financial well-being	Feels secure in their financial future

Measuring Global Financial Health Project Timeline



Four Key Factors in Understanding Global Financial Health

Our research found 4 key factors that are essential to understand financial health in developing countries.



Absolute Income Level

Abject poverty levels which limit ability to strive towards financial health



Social Network

Range of family and community available for informal financial arrangements



Income & Expense Volatility

Variations in timing, magnitude, and predictability of income and expense flows



Financial Role

Status within household (e.g., dependent, contributor, key financial decision maker)

Small Group Discussion: Measuring Financial Health

(20 minutes)

Discuss how you would respond to the following measurement challenges:

- Informal vs. formal financial lives
- Extreme income and expense volatility
- “Too poor to be financially healthy”
- Financial role of the individual in the family
- Debt stress vs. financial health
- Asking sensitive questions and getting reliable answers
- Subjective vs. objective questions: “How satisfied are you with your financial health”?
- Variation by country and region

The Poverty Stoplight

1. Using a list of poverty indicators, consumers rate themselves **green**, **yellow** or **red** on each.
2. They set their own goals (“This year I want to turn these three indicators from yellow to green.”)
3. Organizations may intervene to support these goals.
4. Progress is monitored using the same indicators.

Benefits for Consumers

- Visualize and reflect on their own situation – motivate behavior change!
- Take an active and informed role in their lives
- Break an overwhelming task into manageable fragments

Benefits for Organizations

- Clearly identify status of consumers
- Collect relevant data
- More than measurement of the problem – part of the solution

As outcome measurements, consumer self-assessments offer a self-evident form of validity, even though attribution of changes to interventions is not possible.

CFI/MFC Project: Financial Health App

With support from the MetLife Foundation

A smartphone and tablet application for consumers and financial institutions:

- Starts with the basic financial health questions – motivation!
- Creates advice modules based on responses – priorities and pathways to better financial health
- Interactive: Keeps customer engaged
- Financial institution can offer products and support based on results – two-way communication
- Source of information about customers

