Breakout Workshop 3: Indications of Financial Stress and Health among Clients
SPTF Annual Meeting, Mexico City
Wednesday, June 7, 2017
Session leaders:

- Isabelle Barres, Smart Campaign;
- Bobbi Gray, Grameen Foundation;

Bobbi

- It is not just the indicators but the measures you use to collect data if you want it to be effective
- Financial health and financial stress are related, but the tools you would use to understand the concepts and measure data are not necessarily the same
- Financial stress manifests itself with lots of different health consequences, including depression, ulcers, migraines, insomnia, addiction issues
- Research shows that women feel more financial stress than men
- As people are financially stressed and are over-indebted, their ability to cope with shocks goes down and it creates risks for the financial sector
- Unacceptable sacrifices – read the work of Jessica Shicks. People may make unacceptable sacrifices (e.g., reducing education, sell or pawn assets, borrow anew to repay, work more than usual, postpone important expenses, reducing food consumption) to pay a loan, and in these cases, financial stress and over-indebtedness may not appear early in the data because people are paying loans.
- Reducing food consumption is one of the levers that people do have, as compared with fixed costs they have to pay, so feeding people less at home does become a way to cope with financial stress.
- Observable behaviors that are indicators of financial stress are several (e.g., do not attend meetings, hiding, not repaying)
- Financial stress does not often fit into a theory of change in FSPs' processes because they are defining positive change that they want to see, so they are unlikely to say, "We want to see reductions in financial stress."
- SEF in South Africa has a well-documented process to identify people who are vulnerable to financial stress. Some behaviors within the loan group, for example, give certain signs of financial stress
- Bobbi listed draft indicators for financial stress/health measures:
    - **Self-perceived financial stress:**
        - confidence in ability to repay loan,
        - anxiety about loan repayment,
        - argument with spouse about finances,
        - time spent thinking about repayment in last day,
        - general stress level as related to personal finances.
    - **Satisfaction with life as a whole:**
        - general satisfaction with life
        - satisfied with financial situation of household
    - **Consequences of or experiences from financial stress:**
        - Food security status/change in household diet
        - Reduced Coping Strategies Index (rCSI)
        - Household (in)ability to pay for key basic household expenditures (e.g., medical visits, education costs, electricity, clothing)
    - **Financial service provider records:**
        - Change in attendance

        - Change in savings, repayment rate
        - Over-indebtedness measures (Borrowers' existing fixed and regular debt obligations + Additional debt obligations from the new loan) < (Average monthly income – Minimum living expenses for family) → This is an IFR formula
    - **Financial Well-Being Scale:**
        - *Questions include statements such as: "Because of my money situation, I feel like I will never have the things I want in life, I am just getting by financially, I am concerned that the money I have or will save won't last."*
    - ***Financial Health: CFI/CFSI***
        - 1. Balances income and expenses
        - 2. Builds and maintains reserves
        - 3. Manages existing debts and has access to potential resources
        - 4. Plans and prioritizes
        - 5. Manages and recovers from financial shocks
        - 6. Uses an effective range of financial tools
- An early warning system can often be related to preparing for disasters but you can apply some of the lessons to financial stress.
- Bobbi shared a framework for a people-centered early warning system and applied it to financial inclusion. The framework has four components: 1) Risk knowledge – what are the hazards and vulnerabilities of financial stress? Do we have these documented? Do we agree on what the hazards are? 2) Monitoring and warning service – can accurate and timely warnings be generated? 3) Response capability – who are all the people involved? Responsibility of clients? Responsibility of field staff? And, is the institution able to react, in terms of having resource capacity and defined processes? 4) Dissemination and communication – who needs the information and how do you get information to them? Do warnings reach all of those at risk?
- Cross-cutting issues for an early warning system:
    - Effective governance
    - Multi-hazard approach
    - Involvement of local communities
    - Gender perspectives and cultural diversity
- Reflect: Can you use an early warning system (EWS) for multiple uses? For example natural disasters, disease epidemics. If you don't use the EWS for more than one thing, it gets mostly unused and people may lose the ability to use it.
- Bobbi is looking for examples of FSPs that have and are using an EWS, even if you don't call it that, to help detect clients that are showing signs of over-indebtedness and / or stress. She knows of SEF in South Africa but is looking for others. If you have examples to share, please contact her.
- Tom Shaw of CRS: With EWS, you also need to think about training staff regularly so that people are prepared. You have to get trained regularly and thoroughly on the preparations. Your system should include reminder trainings.
- Johanna Ryan of VisionFund commented on decreased consumption as being a coping mechanism. She has been working on a women's empowerment fund. Her research shows that women are more likely to suffer from external stresses, and if one occurs, they are the most likely to have to cope with that external event, she is more likely to reduce her own food consumption before reduces food for other members of her household. This leads to the reflection that we should think about people who are likely to be the most vulnerable should a shock occur, even if they are not yet identified as vulnerable.

Isabelle:

- Financial health is a really interesting topic for me personally and I am glad to see it getting more discussed in our work in the financial inclusion sector.
- Financial inclusion is a means to an end, not the end in itself. Financial services should be a tool to use to make people more financially healthy and less vulnerable.
- Over-indebtedness can create financial stress, or financial stress can lead you to become over-indebted.
- Note that some people don't have access to credit but could be financially stressed. Maybe they are financially stressed because they do not have access to loans.
- CFSI – Center for Financial Services Innovation – was looking at financial health in the United States and developed a framework. The Center for Financial Inclusion (CFI) and CFSI and Accion worked to see if that framework could be applied internationally.
- Financial health is measured in how a consumer saves, spends, and borrows, and plans in order to manage day-to-day life. It is not just about debt.
- CFSI conducted a study to measure financial health in the United States. Within their framework, they developed eight indicators of financial health and a scoring system and pilot tested it.
- CFI took that framework and adapted it for the developing world, and selected two countries – Kenya and India – to do pilot research.
- The pilot involved five steps: 1) convening experts, 2) qualitative research in Kenya and India (89 interviews across 18 communities); 3) quantitative research in Kenya and India with more than 1000 respondents, and then the draft framework was reviewed and revised by the experts; 5) framework published. Now, the next steps would be to develop and test detailed survey.
- In both Kenya and India, certain words were identified as quite relevant that also had been relevant in the United States: having good income, stable income, when you earn and are on a path to increasing your purchasing power, when income meets expenses, when you can plan for the future, when you can send your kids to school – these concepts resonated in both countries, as they had in the United States.
- There were some differences in results from the research between the United States and the developing world: informality was a reality for the people surveyed in Kenya and India. For example, for a coping mechanism, people experiencing financial stress in the developing world turn to the informal sector. This does not tend to be the case in the United States, where people turned to the formal sector. The use of informal sources of funding leads to minimal/zero checkable numbers about those activities.
- The unpredictability of how much you earn, in addition to the overall small among of earnings, is a very relevant factor in the developing world.
- Informal networks were at the core of most people's financial lives in the Kenya and India research. All members of the community are expected to contribute to the social safety net, but not everyone was expected to contribute equally, and not everyone received the same level of support from the community.
- There is a limited use of formal financial services in the developing world.
- Health financial behaviors:
    - Shaping income and expenses
    - Building reserves
    - Cultivating receivables
    - Planning and prioritization for future expenses
- Specific example of shaping income from the research in Kenya: one man was growing seeds, raising livestock, and providing technical assistance on livestock growth.
- Income can be money and also physical goods that a person acquires
- In general, there are several ways to shape income:
    - Focus on growing a single source of income through income-generating endeavors

- Cultivate multiple sources of income as a hedge against the risk of any one of those income streams dropping away
- Smooth income over time – save current earnings for the future or borrow against future earnings

- Building reserves:
  - Automate process for a certain portion of income to go to savings
  - Invest in working assets that earn income
  - Invest in social capital
- One example: a woman saved 30 rupee a day for a year and then was very pleasantly surprised by how much savings she had at the end of the year
- Establishing a financial reserve builds self confidence and opens new financial responsibilities
- Receivables = a person's ability to obtain financial resources that they do not currently hold
- Contributing to community initiatives builds reserves
- Financial health very strongly involves planning and being able to act on plans
- Four key factors to understand global financial health: 1) absolute income level (there is an abject poverty level which limits a person's ability to strive toward financial health); 2) social network; 3) income and expense volatility (variations in timing, predictability, and magnitude of income and expense flows); 4) financial role – status within the household matters, for example if the person is a dependent, a contributor, or a key decision maker
- An interesting research question: does access to a loan or a mobile bank account actually improve financial health?
- Financial health data could be relevant to FSPs – knowing this about clients helps with product design, methods for distribution, growing customer base.
- Financial health data could be relevant to policy makers as they think about how to improve outcomes for clients in their sector.
- Global financial health framework: definition, framework, measure, test and refine, build momentum, and active use. This only gets us to measuring financial health. There would be a whole next set of steps to work toward improving financial health.
- Tom Shaw of CRS commented: USAID often looks at whether an intervention has changed clients' lives, and so far they often do not see change related to the indicators that they have been using. But, Tom does not think they are using financial health indicators and it could be worth suggesting to them to measure financial health before and after as outcome indicators.
- Question: it seems that there is significant overlap between what we mean when we talk about resilience and what you are saying today about financial health. How do the two relate? Are they different? Answer: they do seem to be seeking to measure the same type of information. It would be helpful to map the resilience indicators we already have to the financial health indicators that are emerging and see where our resilience thinking has gaps that the financial health research may be filling in.
- Group exercise: each person took a survey designed to assess each person's financial health.
- One person commented that he scored high but he feels more financial stress than his score would indicate. He is still stressed about whether he can achieve his long-term financial goals. There is a stress involved in fear of failure. There is the stress of not achieving as much as his parents achieved.
- One question in the survey the group tested asked the question, "Do you have the capacity to raise $3000 in a month in a case of emergency?" A participant commented that it seems that number would be way too low in some contexts and in others, that would be way too high. Answer: the number is meant to be adapted to context. It is calculated from a formula relying on Findex data and is something like 1/20 of the GNI in a country. Jurgen/Isabelle discussed the value of being even more nuanced and saying something like 3 months' worth of salary, because that would be relevant to each person.

- Johanna Ryan says attitude of respondent will affect their stress. If you have been financially stressed, even if you are financially healthy today, you will always feel vulnerable.
- Is there a correlation with age in those indicators? For example, houses were not that expensive for some people decades ago but now they are.
- One participant said she thought she was going to receive a pretty low score but she was not stressed about it. So there is a personality perspective. Financial health can be very objective but stress can be very subjective.
- Planning for the future can create stress. If you do want to buy a house, then you could have stress if you are not on the track to get it. But if you are not aspiring to buy a house, you would not be stressed even if you are not on the path to buy one.
- If you score high but there is one area in which you are not performing well, you could still be stressed because that one area is a source of worry to you.
- Amelia from SPTF commented that financial stress that is specifically caused by over-indebtedness seems to be something that an FSP would want to measure, because it can act to prevent over-indebtedness. But financial stress caused by other factors seems not to be something an FSP should try to address or would be equipped to address.
- Report back from financial stress (English 1):
    - There is a power of the group. The group may know that one or multiple members are not doing ok. How do you get that information to the FSP so that non-repayment doesn't occur? That likely depends on the dynamics of the group and how strong the group is.
    - Lagging indicator – level of indebtedness
    - In SEF (South Africa), they look at savings and a variety of other indicators that collectively could indicate client stress.
- Report back from financial stress (English 2):
    - Yes at the institutional level the hazards of vulnerability are well known. At the client level, the hazards are not as well known.
    - Are the right parameters being monitored? Repayment capacities are determined by the institution. But the client likely lacks the ability to assess his/her own capacity to repay. The level of repayment capacity is imposed by the institution.
    - Ability to save is a good indicator.
    - The appropriateness of over-indebtedness measures – these could be "appropriate" as defined by regulators or FSPs, but over time the situation may change.
    - One organization in the Philippines shared that it is monitoring clients' businesses' health. Loan officers need to monitor the health of the business, meaning, if it is earning and if it is not.
    - The FSP can think about providing partnerships to help clients with services that the FSP does not provide.
    - FSP providing emergency loans or restructuring loans is a possible tool.
- Financial health (English 1):
    - This group focused on the uses of the financial health survey for an FSP. Where could the FSP use it and how would it make sense to use it? Conclusions: it can get quite impractical if we look at it as a client-by-client survey. We would not use it operationally as part of the loan application or loan monitoring. But as a research topic, to test through satisfaction surveys or focus groups, the FSP could pilot test and research early warning signs, perhaps on an annual basis.
    - You could use the indicators as a portfolio monitoring tool.
    - We would like to focus on measuring the health of the portfolio and not the stress because stress brings in a lot of subjectivity, and perhaps addressing stress is not a direct responsibility of the FSP.
- Financial health (Spanish 1):

   - How to implement the survey and what may be missing? It is a bit theoretical. To implement it in practice, you need to adapt to a specific country context, or even in a specific region in a country. You may need to make the questions simpler/easier to understand for the local population, and questions adapted to specific characteristics of the region.
   - It may be necessary to complement the information. If you focus on quantitative data but do not know the profile of the client, his family situation or his financial situation in general, the conclusions we made from the data might be wrong. In order to be able to have valid conclusions that help to make decisions, you would need a fuller picture of the client's situation.
   - We discussed what institutions are doing in the present. Institutions base their decisions on credit evaluations and information available from credit bureaus. Many times there is some information missing. Perhaps a client deliberately does not provide all the information because in the end s/he thinks holding back data would improve his/her chances of getting a loan.
- Tom Shaw: a conclusion that came to me is this: we are looking for a DRR strategy. DRR = disaster reduction risk strategy. Just measuring it isn't enough. We need to define where we are going to go with this information. What is our response?
- Tatiana Peralta: If we are a Smart certified MFI, we are already measuring cash flows of clients and taking steps not to over-indebt clients. One of my main questions is, what are we proposing to add to what is already there? It might make sense to add financial health as an additional piece of research.
- Isabelle: Smart Campaign does have a lot of metrics to measure whether the institution is doing everything it can to prevent over-indebtedness. But when I think of how this work on financial stress/health could inform Smart Campaign's work, I think it could be a nice complement. For example, the FSP could be doing everything it is supposed to do, but in an unhealthy market, where other institutions are not behaving responsibly and/or the credit bureau doesn't work, other factors could create over-indebtedness and/or financial stress. You'd need all institutions that a client is banking with to adopt the same rigor.
- SPTF has had a discussion with MicroFinance Opportunities about the question of financial stress and what the FSP's response should be once it identifies signs of stress. There are multiple ideas, but none that is a proven solution – we need to test them all. For example, one idea is getting education to clients in specific areas tailored to the reasons for that client's over-indebtedness.
- Bobbi: education is an interesting question. If a client is over-indebted and has loans from multiple institutions, you might want to offer clients education on how to get out of all that debt. It could be sensitive which entity provides the education. For example, one FSP might bias the education to get itself repaid first among the others.
- Have you talked about how new technologies help us to evaluate financial health? This morning we saw an FSP that was 100% software. How can they evaluate stress of a client when they do not see the client?
- Isabelle: a question is, can big data help us to identify and understand client stress? You could potentially envision a tool where you do not have to collect more data but use the data you already have to gain information about financial stress.
- Isabelle: As we conclude, two things surface for me: 1) There is a soup of terms and acronyms: financial capability, stress, financial health, resilience, outcomes. We think of them individually sometimes but they are part of one big area of thought, to reach the same goal. 2) There is the issue of subjectivity and objectivity. What ways can we incorporate the voice of the client into the work we are doing? Do not assume we know what clients want to be protected from. We can talk to them to help prioritize protections to ensure and/or to help identify other areas for client protection.

<u>Written notes from the group discussions turned in by the groups</u>:
Notes from one page:

- Que le falta?
  1. Tropi calizar la herramienta
  2. Complementarla con otras herramientas: perfil psicografico y evaluacion crediticia
- Que hace la institution?
  1. Evaluacion crediticia
  2. Consulta en el buro de credito

Notes from another page:

- Use it through focus groups (not per client)
- Can't use it through regular ops
- Ca we add proxy questions in the loan applications?
- Timing for asking
- Not a screening toll (via loan application)
- Add into client satisfaction surveys
- Portfolio health – monitoring tool
- Change in financial health over time
- Measure health not stress (not our scope)
- Finance companies already have processes that look at clients' financial health
- Intervention: financial literacy training
- Early warnings – continuous monitoring

Notes from another page:

- Are the hazards and vulnerabilities of financial stress well known?
  - Yes, but not at the client level.
- Are the right parameters being monitored?
  - Repayment rate (self-perceived, not "imposed" by inst.)
  - Ability to save
  - Financial education
  - Appropriateness of over-indebtedness measures
  - Monitor client's business
  - insurance
- How can local capacities be utilized?
  - Monitor client's business health
  - Offer insurance
  - Financial education
  - Partnerships
  - Safety nets (restructuring, reschedule loans, bridge loans)