

# **Global Developments in Financial Health Measurement**

**Presentation for Technical Workshop on Measuring Financial Health**

**Central Bank of Kenya, Kenya National Bureau of Statistics, and FSD Kenya**

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# Introductions

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- Co-founder of the Smart Campaign, a global client protection campaign
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# **1. Evolution of the Concept: Financial Health and Well-Being**

## Milestones in the concept of Financial Health and Well-Being

- Financial educators frustrated with lack of impact of traditional methods sought to examine the impact of financial education on the financial lives of consumers.
- About 10 years ago, financial health began to move beyond financial literacy into the mainstream of financial sector discourse.
- Early attempts to measure financial health in high income countries revealed shocking gaps: the \$400 question. Propelled financial health into the spotlight.
- Financial diaries research deepened understanding of how people manage their financial lives.
- Progress in financial inclusion raised the question: financial inclusion for what? Were the newly included financially healthier?
- 2010 financial crisis demonstrated the link between financial health gaps and financial sector stability.
- Around 2015, the concepts began to be explored in low and middle income countries.
- **Current frontier**
  - Policy makers in dozens of countries are measuring financial health
  - Early stages of application to policy and programming: especially financial stability, consumer protection
  - Increasing private sector interest, but still nascent

# Everyone Strives for Financial Health

*A financial health lens helps policy makers and providers see through the eyes of the people they serve*

*"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



*"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

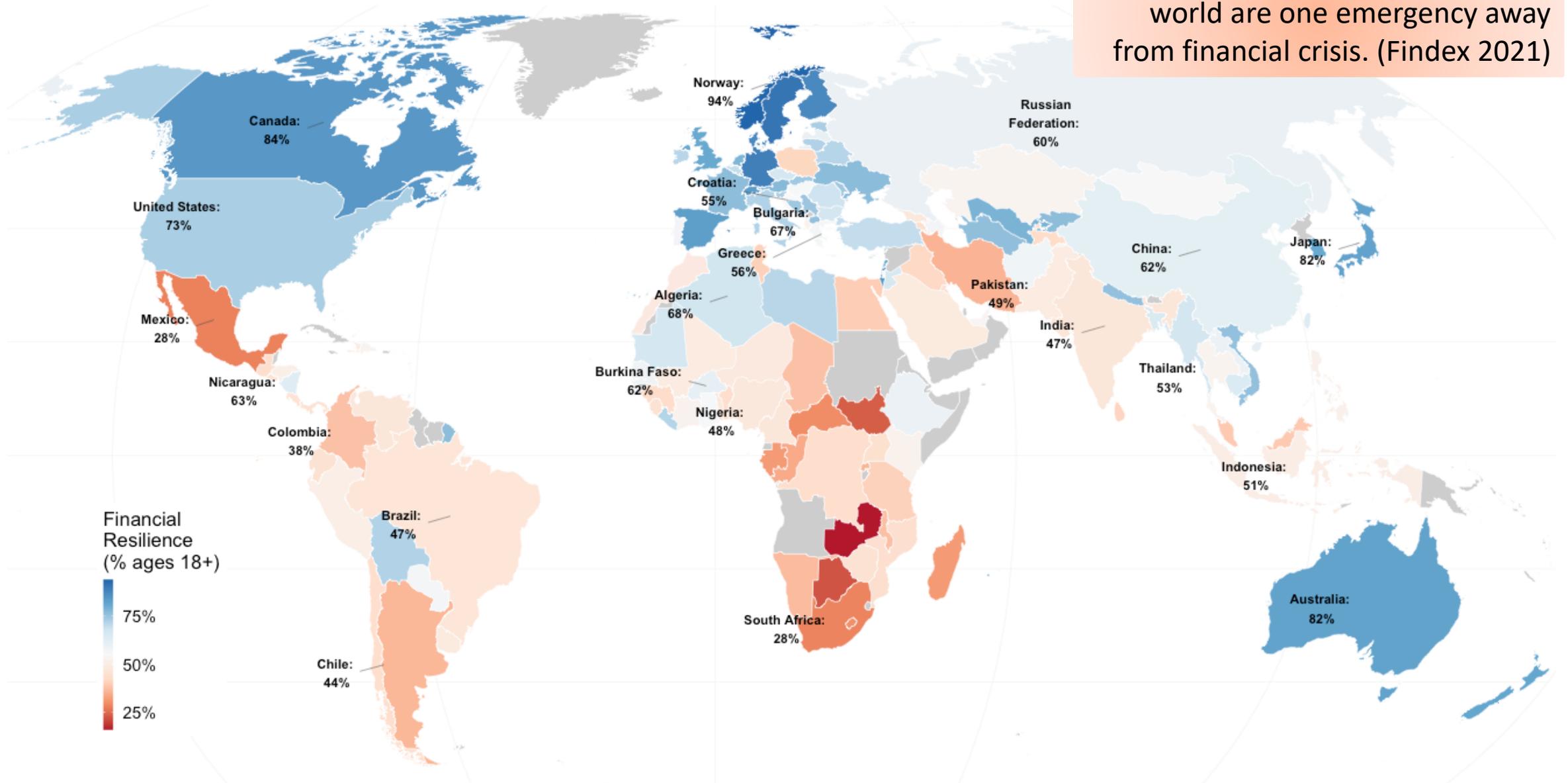
*We will be financially healthy when all of us three brothers start earning and we start earning more"*

—Yogesh | Sinnar, India

## Financial resilience worldwide

Percent of adults (18+) able to raise 1/20 of GNI per capita in 30 days by country, 2017

45% of people in the developing world are one emergency away from financial crisis. (Findex 2021)



Source: Author's calculations based on World Bank Findex.

## 2. Measuring Financial Health

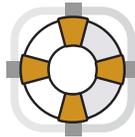
# UNSGSA working group definition

Financial health or wellbeing is the extent to which a person or family can smoothly manage their current financial obligations and have confidence in their financial future.

## The Four Elements of Financial Health



**Day to day**  
Smooth short-term finances for financial obligations and consumption



**Resilience**  
Capacity to absorb financial shocks



**Goals**  
On track to reach future goals



**Confidence**  
Feeling secure and in control of finances

# Why an Index? The “Vital Signs” Concept

*In contrast to detailed financial health surveys, which are also important*

## Makes it easy to measure financial health quickly

Snapshot on consumer outcomes. Indicates segments of the population or elements of financial health that need attention.

## Reveals links to Financial Inclusion and financial service use

Drop into existing surveys so that the relationships between financial health and other things – such as financial inclusion and product use – can be analyzed.

## Tool for financial sector actors

Financial service providers and NGOs that lack sophisticated research capabilities, can use an index to easily assess the financial health of their customers or beneficiaries.

## Supports and motivates individuals

Make it possible for people to assess their own financial health. Opens the way for financial education and financial coaching.

## Influences policy makers and the public

Legislators, media, policy makers in non-financial sectors, and the general public need to hear messages in a short, compelling way. A great soundbite can lead to action.

**UNSGSA question:**

**Can we work towards an internationally-agreed way to measure financial health?**

# Two Approaches to Financial Health Scales

## **Perception: Consumer Financial Protection Bureau**

1. I could handle a major unexpected expense
2. I am securing my financial future
3. Because of my money situation, I feel like I will never have the things I want in life
4. I can enjoy life because of the way I'm managing my money
5. I am just getting by financially
6. I am concerned that the money I have or save won't last
7. Giving a gift for a wedding, birthday or other occasion would put a strain on my finances for the month
8. I have money left over at the end of the month
9. I am behind with my finances
10. My finances control my life

## **Objective Financial Condition: Financial Health Network**

1. Pay bills on time
2. Spend less than income
3. Have sufficient liquid savings
4. Have sufficient long-term savings
5. Have manageable debt
6. Have a prime credit score
7. Have appropriate insurance
8. Plan ahead financially

# Comparing Major Financial Health Surveys

	K-Finaccess	CFPB	OECD	FINDEX 21	FHN Pulse	CBA
<b>Day to Day</b>						
Monthly income/expense balance	1	3	5	1	2	2
Spending control	1	1	1			2
<b>Resilience</b>						
General ability to weather shock						1
Adequacy of current reserves	1		1		1	
Ability to raise a lump sum	1	1		2		
Specific categories of shock	1			1	1	
Debt status					2	
<b>Goals</b>						
Long term planning	2	2	1		2	2
Savings behavior			1	1		
Specific goals (old age, education)	2			3		
<b>Confidence</b>						
Finances and quality of life		2	2			2

### **3. Applying a Financial Health Lens in Financial Sector Policy**

## Policy Applications of Financial Health and Its Measurement

*Financial sector regulators have many possible avenues to use financial health lens and data*

- **Financial stability.** “Canary in the coal mine”. Falling financial health may be a good predictor of financial crisis (see IMF work)
- **Consumer protection.** Cross-analyze financial health with product use to prioritize market conduct risks with greatest impact on consumers’ lives. (mobile money example)
- **Financial product design.** Encourage financial service providers to develop products that support the consumer’s financial management process. (example from research on savings)
- **Tools and advice for consumers.** Government, financial service providers, non-profits can all be involved. (UK example)
- **Research design.** Design research questions to ask more meaningful questions (meta research example)
  - Beyond savings balances to how saving works for people (meta-research example)
  - Understand how people are experiencing shocks and develop a hierarchy of coping mechanisms
- **Social safety net priorities.** Work with policy makers in other sectors to identify top opportunities to support resilience (health care, labor policy, old age, school fees, emergency response)

## Gaps in financial health can have social, economic and even political consequences

Element	Individuals and Families	Social and Economic Implications
Day to day	<ul style="list-style-type: none"> <li>• Inability to pay rent, utilities, car payments</li> <li>• Stress on social networks</li> <li>• Overindebtedness</li> <li>• Consumption gaps: hunger, medicine foregone</li> </ul>	<ul style="list-style-type: none"> <li>• Lower productivity</li> <li>• Homelessness</li> <li>• Food insecurity</li> <li>• Credit market instability</li> </ul>
Resilience	<ul style="list-style-type: none"> <li>• Inability to pay for health care &amp; missed care</li> <li>• Loss of essentials needed for work</li> <li>• Prey to loan sharks</li> <li>• Fall back into poverty</li> </ul>	<ul style="list-style-type: none"> <li>• Poverty increases</li> <li>• Burden on social protection programs</li> <li>• Poor health due to missed care</li> <li>• Predatory credit</li> </ul>
Goals	<ul style="list-style-type: none"> <li>• Foregone education</li> <li>• Poor shelter</li> <li>• Can't start or maintain own business</li> <li>• Poverty in old age</li> <li>• Difficulty accessing credit</li> </ul>	<ul style="list-style-type: none"> <li>• Poorer health, education, and housing</li> <li>• Lower earnings</li> <li>• Fewer or less robust businesses</li> <li>• Higher old age burden on the state</li> </ul>
Confidence	<ul style="list-style-type: none"> <li>• Worry and stress</li> <li>• Difficulty pursuing productive life</li> </ul>	<ul style="list-style-type: none"> <li>• Less productive citizens</li> <li>• Frustration leading to political unrest</li> </ul>

# Broadly Applicable Financial Health Policies

- **Design social protection programs with resilience in mind. (Example: Allow beneficiaries to save unspent surpluses)**
- **Ensure that default options for government programs encourage financial health. (Example: automatic enrollment in pension savings)**
- **Promote emergency savings among all households. (Examples: public campaigns promoting for families to build 3-month savings buffers; tax incentives for savings)**
- **Protect consumers from credit products that encourage over-indebtedness. (Example: limit loan products that feature repetitive short-term borrowing)**

# Mobile Money Offers Both Positives and Negatives for Financial Health

Element	Benefit	Risk
Day to day	<ul style="list-style-type: none"><li>• <b>Agile</b> money -- easy to move money quickly where it is needed.</li></ul>	<ul style="list-style-type: none"><li>• Too easy to borrow (<b>overindebtedness</b>)</li></ul>
Resilience	<ul style="list-style-type: none"><li>• Easier and more secure connection to <b>government benefit payments</b></li></ul>	<ul style="list-style-type: none"><li>• Loss of money to <b>fraud</b></li></ul>
Goals	<ul style="list-style-type: none"><li>• Safer place to store and <b>save</b> money</li><li>• Greater access to <b>credit</b></li></ul>	<ul style="list-style-type: none"><li>• Too easy to borrow (<b>overindebtedness</b>)</li></ul>
Confidence	<ul style="list-style-type: none"><li>• Peace of mind from the ability to transact anytime, anyplace</li></ul>	<ul style="list-style-type: none"><li>• New technology not well understood -- vulnerable to <b>errors, surprise fees</b> (1/3 of users need help)</li></ul>

*Using a financial health lens to consider mobile money helps prioritize mitigation of risks with large financial health impact.*

# How Mobile Money Providers can support financial health

## 1. Protect

- Strengthen security to prevent frauds and scams
- Require standards among credit providers using mobile money platforms
- Clarify who is responsible when things go wrong
- Build up disaster response systems (climate disasters, political refugees)

## 2. Support

- Educate users to use mobile money and access to credit safely
- Facilitate products that support emergency and long term savings
- Design customer interfaces to support informed decisions
- Start with your own staff and agents -- the first line of financial health

# The UK Money and Pensions Service (MaPS)

*A Mature Financial Health Program with a financial literacy focus*

Launched in 2019, MaPS is a government agency funded by levies on financial institutions and pension providers. Its aim is to promote financial wellbeing. It provides financial advice and encourages other organizations to implement financial wellbeing activities.

Research on financial health gaps in the UK led MaPS to focus on five priorities.

1. Financial education for children and their parents
2. Increased savings habits
3. Less borrowing for everyday essentials
4. Debt counseling for all who need it
5. Pension and old-age planning

Resulting action plans involve banks, fintechs, debt counselors, pension schemes, employers, media, schools, and the Financial Conduct Authority.

# Products and Services that Promote Financial Health

**FSPs working with financial health have developed products to “help your customers spend wisely, build savings, borrow responsibly and plan for the future.”** *(Financial Health Network)*

- Planning and budgeting tools
- Automatic savings products
- Overdraft protections
- Responsible lending
- Behavioral nudges -- just in time alerts
- Emergency assistance
- Coaching and debt counseling

# Financial Health of Employees

**Companies have found that supporting the financial health of employees creates a more productive and loyal workforce.**

- 59% of employees in a survey said financial money matters causes them the most stress in their lives -- outranking jobs, relationships, health and other matters. *(Source: PwC)*
- 55% of workers in the UK said that financial pressure distracts them from fulfilling their roles at work.
- Lost productivity and absenteeism due to money stress costs UK employers £10s of billions. *(Source: Neyber)*

## **The Worker Financial Wellness Initiative**

*Consortium: PayPal, Financial Health Network, JUST Capital, Good Jobs Institute*

- Companies assess the financial health of employees
- Adjust wages, benefits as needed
- Provide support and advice