

Financial Health

What policymakers need to know

Elisabeth Rhyne, i2i consultant

December 2020

Defining Financial Health

Financial health comes about when your daily financial systems allow you to be resilient and pursue opportunities over time.

Financial Health Network. U.S.

The Elements of Financial Health

1. Smooth short-term finances, including the ability to meet ongoing financial obligations and consumption needs.
2. Preparedness to meet and recover from financial shocks
3. A longer-term perspective that involves maintaining or improving well-being
4. Feelings of confidence and well-being or control (Not in all frameworks)

Why Measure Financial Health?

Financial Health is a reformulation of the approach toward what is important *to achieve* with financial inclusion.
BFA Global

- **Gauge the outcome of consumers' use of financial services:**
 - Check the success of the financial sector in meeting a population's financial needs.
- **Illustrate broader social economic concerns:**
 - E.g. gaps or inequalities in income, employment, and social safety nets.
- **Spark the development of products and services that support financial health**
 - Financial products, education, coaching, etc.
- **Examine the financial capability of a population:**
 - Measure success of financial education.

Findings from Measurement of Financial Health

- **Covid-19 crisis** underscores the poor state of financial health among the majority of the world's population.
 - Reserves have been depleted
 - Build back with greater resilience
- **Financial health is correlated with income**, but there are more and less healthy people at every income level.
- **Certain financial behaviors are strongly associated** with financial health or its lack – such as savings habits or borrowing for daily needs. Basis for transaction analysis.

20% “extremely vulnerable” (5 South American countries)

41-60% “fully insecure” (6 low-middle income countries)

Only 22% “healthy” (Kenya)

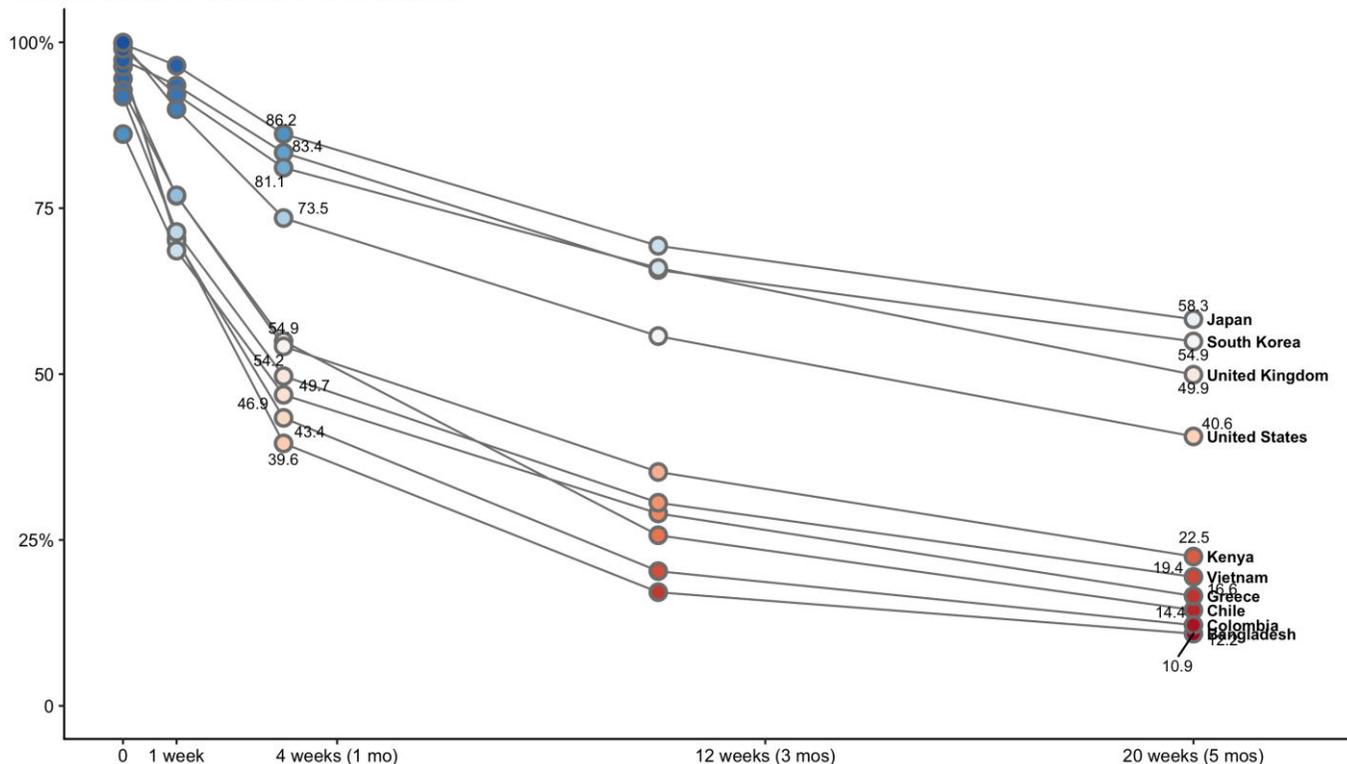
Only 50% can access emergency funds (Global)

People only have reserves to cover their basic needs for a few weeks.

In situations like the economic slowdown in response to the novel coronavirus, when income is interrupted, reserves are depleted within a very short time. For many people in lower income countries this happens in less than a month.

For how long would adults be able to cover all basic needs using savings or asset sales in the event they lost their income?

The share of financial 'survivors' at time t (in weeks).



Source: Paul Gubbins, calculations based on Gallup Financial Health survey.

How Some Policy Makers and Financial Service Providers Have Responded to Financial Health Findings

- **UK Money and Pensions Service:**
 - A new government agency devoted to promoting financial well-being, policies based on findings from leading financial health researcher
- **U.S. Consumer Finance Protection Bureau:**
 - has developed tools for widespread use; uses results of financial health research in its public campaigns
- **Financial Health Network:**
 - Financial institutions, fintech start-ups and employers in its network are developing products and services that promote financial health
- **In developing world:**
 - Financial authorities are integrating financial health into their policy goals and measurement frameworks in Kenya, Mexico, Brazil, Peru and Philippines, among others; few direct policy changes so far.

Recommendations for Policy Makers

- **Consider financial health as a policy objective.** Setting objectives would prompt actors to support the financial well-being of individuals and families.
- **Measure financial health.** Get valuable insights that are not captured by standard socio-economic variables and more linked to financial inclusion.
- **Do not use financial health as a direct outcome of financial inclusion,** Use it to identify problems and segments that need attention, and the severity of problems.
- **Develop a quick and easy way to measure financial health:** A financial health index or the Resilience Question.
- **Beware of measurement pitfalls.** Follow tested measurement strategies.

Source: Elisabeth Rhyne &
insight2impact, 2020

Considerations in Measuring Financial Health

Three good practices for index development:

1. Select questions that embody the concept well. Most indexes contain 5 to 10 questions.
2. Phrase questions carefully. Adapt to local circumstances.
3. Scoring. Simple and transparent; easy to use the tool.

A simple alternative: The Resilience Question.

Ability to respond to an emergency reveals important signal with only one or two questions.

Going deeper

Consumer input and testing. Deeper surveys will be needed for problem diagnosis and solution identification.

Sample Index.

All questions have been used as phrased in empirical studies.

Indicator	Sample Question(s)	Comments, Drill Down Questions
Day to Day		
1. Ability to balance income and spending	I can usually make my money last until the next time I receive income. OR How often do you run short of money for food or other regular expenses?	To drill down, in low-income settings, consider asking about frequency of skipping meals, such as: At any time in the past 12 months, my food ran out and I did not have money to buy more.
2. Ability to meet obligations in full and on time	I pay all my bills on time and in full.	Where informality is common, ask in more general way.
3. Manageable debt service	Does paying back the money you owe (to an individual or institution) make it difficult for you to pay for the other things you need?	
Resilience		
4. Ability to obtain a lump sum for emergency	Imagine that you have an emergency and you need to pay (1/20 th of GNI). Is it possible or not possible that you could come up with that amount within the next month?	Use Findex question for international comparison. Consider drilling down on specific type of emergency, e.g. In the past year months, someone in my household needed to see a doctor or hospital, but did not go because we couldn't afford it.
5. Adequacy of liquid savings	Number of weeks or months liquid savings would last if income stopped. OR Thinking about the total income of your household, how many months income do you have in savings?	Suggested possible answers: up to one week, one month, three months, six months or more.
Secure Future		
6. Saving toward long term goals	I am confident that I am on track to meet my long term savings goals.	As a drill down question, consider also asking about preparation for old age.
7. Ability to access resources	I am confident that I can obtain the resources I need to secure my future.	In middle to high income countries, could ask about credit score instead.
Perception		
8. Feeling in control	My finances control my life. OR I am in control of my finances.	

This report was commissioned by i2i as part of its work on measurement of financial inclusion

Read the full report [here](#)