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UNITED NATIONS SECRETARY-GENERAL'S
SPECIAL ADVOCATE FOR INCLUSIVE FINANCE FOR DEVELOPMENT



Financial Health:

An Introduction for Financial Sector Policymakers

UNSGSA Financial Health Working Group

September 2021

Foreword

Financial inclusion is important—and the global community has made tremendous progress bringing people into the formal financial system over the last decade—but our focus has to continue to broaden beyond access to include usage, diversification, and quality products and services. Access to finance should effectively address people's needs and result in positive outcomes that enhance their financial health.

But what, exactly, do we mean by financial health? This refers to a person's state of finances over time—from short-term daily financial obligations and resilience against shocks, to an ability to reach long-term goals as well as feel secure and in control of their finances.

We have witnessed the dangers of access to financial services without consideration to how it meets customers' needs and their well-being in both developed and emerging markets. For example, the subprime mortgage bubble in the United States that led to the 2008 global financial crisis.

More recently, in many countries, digital lending has burgeoned. While this provides a boon to many customers, among many others, especially lower income borrowers, such unregulated products have shaken their precarious financial health, leading to debt stress.

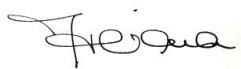
As a result, financial health declined with increased access in some instances.

COVID-19 further underscored that financial health is a universal issue. Individuals, families and small businesses, in both developed and emerging economies, were affected with significant consequences in the public and financial sectors. The pandemic exposed not only the vulnerabilities of those excluded—notably undeserved groups like the poor, women, smallholders and MSMEs—but also the need to ensure the included actually benefit from using financial services.

I convened the UNSGSA Financial Health Working Group to strategically work toward financial health in the context of financial inclusion. This group of leaders from financial and development sectors collaborated to develop a shared vision and direction to advocate for key decisionmakers to use the lens of financial health to look at outcomes.

This policy note, one of the first publications developed by the working group, can serve as a helpful starting point for financial sector policymakers to further explore the concept of financial health, and initiate additional research and knowledge exchange. A better understanding of financial health, its policy implications and its drivers can inform actions that lead to effective policy reforms.

Looking ahead, the working group aims to deepen the discussion among the public, private and development sectors, as well as widen the pool of stakeholders in the dialogue. I look forward to opportunities to collaborate on our shared goal to help people improve their financial health and build resilience.



H.M. Queen Máxima of the Netherlands

United Nations Secretary-General's Special Advocate for Inclusive Finance for Development

About the UNSGSA Financial Health Working Group

The UNSGSA Financial Health Working Group (FHWG) was convened in December 2020 by HM Queen Máxima of the Netherlands in her capacity as the UN Secretary-General's Special Advocate for Inclusive Finance for Development. The group is composed of financial health experts from the public, private and non-profit sectors, and it came together to advance the focus on financial health globally. Members are Hennie Bester, Centre for Financial Regulation and Inclusion (CENFRI); Payal Dalal, Mastercard Center for Inclusive Growth; Ahmad Dermish, UN Capital Development Fund (UNCDF); Eric Duflos, Consultative Group to Assist the Poor (CGAP); Paul Gubbins, independent technical expert; Mohammad Khalil, Commonwealth Bank of Africa; Leora Klapper, World Bank; Rob Levy, Financial Health Network (FHN); Ben Mazzotta, BFA Global; Diana Mejia, Development Bank of Latin America (CAF); Sarah Parker, FHN; Ida Rademacher, Aspen Institute; Elisabeth Rhyne, independent technical expert; Jaspreet Singh, UNCDF; Evelyn Stark, MetLife Foundation; Pia Tayag, Office of the UNSGSA; Stefan van Woelderren (previously Dagmar van der Plas), ING; and Nancy Widjaja, Office of the UNSGSA.

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This report was written by Elisabeth Rhyne with assistance from Paul Gubbins. It incorporates input from all of the group members. Thanks also for input and support to Peter McConaghy and Ruth Torres of the Office of the UNSGSA. The opinions expressed in this report have not been adopted as official policy by the UNSGSA or any of the organizations associated with the FHWG.

Part I. Why Financial Health Matters for Policymakers

Introduction

Financial health – or wellbeing – is an emerging concept that addresses the financial side of individuals’ and families’ ability to thrive in society. Although the distinct study of financial health is relatively new, people all over the world have long been striving to be financially healthy, and the pursuit of financial health is an important part of many everyday lives. Good financial health is a source of pride and wellbeing, while poor health generates stress, often serious stress.

- “Financial health is when I have what I need every day.” (India)
- “When you have no debt, that’s when you’re healthy.” (India)
- “Financial health is when you can pay your bills and have money left over.” (Kenya)¹

Financial health has been associated with higher labor productivity, better physical health and other benefits.

Policymakers and financial services providers around the world are increasingly using the concept of financial health to focus attention on how financial and related services can contribute to the wellbeing of individuals and societies. They are measuring financial health and incorporating their findings into policies and programs. While in many countries this work is still in its early stages, those experienced in using the financial health concept have found that measuring it provides fresh insights beyond standard socioeconomic indicators. Financial health can be a lens for designing financial policies, as well as policies related to social protection and employment, and in all these areas it can also serve as a tool for evaluating progress. The concept can be useful for examining a person’s ability to reach long term goals and a society’s ability to achieve outcomes such as the UN’s Sustainable Development Goals (SDGs).

The Covid-19 pandemic has only heightened the imperative to examine financial wellbeing by revealing the fragile financial health of much of the world’s population and the interconnections between individual and societal wellbeing.

The UNSGSA Financial Health Working Group (FHWG) believes that measuring and understanding financial health can help policymakers keep their work focused on the wellbeing of individuals and families. This note speaks directly to policymakers, especially those in the financial sector, on why and how to take up financial health as a goal, a measurement tool and a source of insights for policymaking.

The concept of financial health as a policy perspective has matured in several higher-income countries. In recent years, interest has also grown across middle- and lower-income countries to examine how the concept applies or can be adapted to their contexts. As the quotes above suggest, the notion resonates intuitively with individuals across the globe. However, this report is part of an effort to explore how a more formal approach to financial health can support financial sector and other policymakers across the world.²

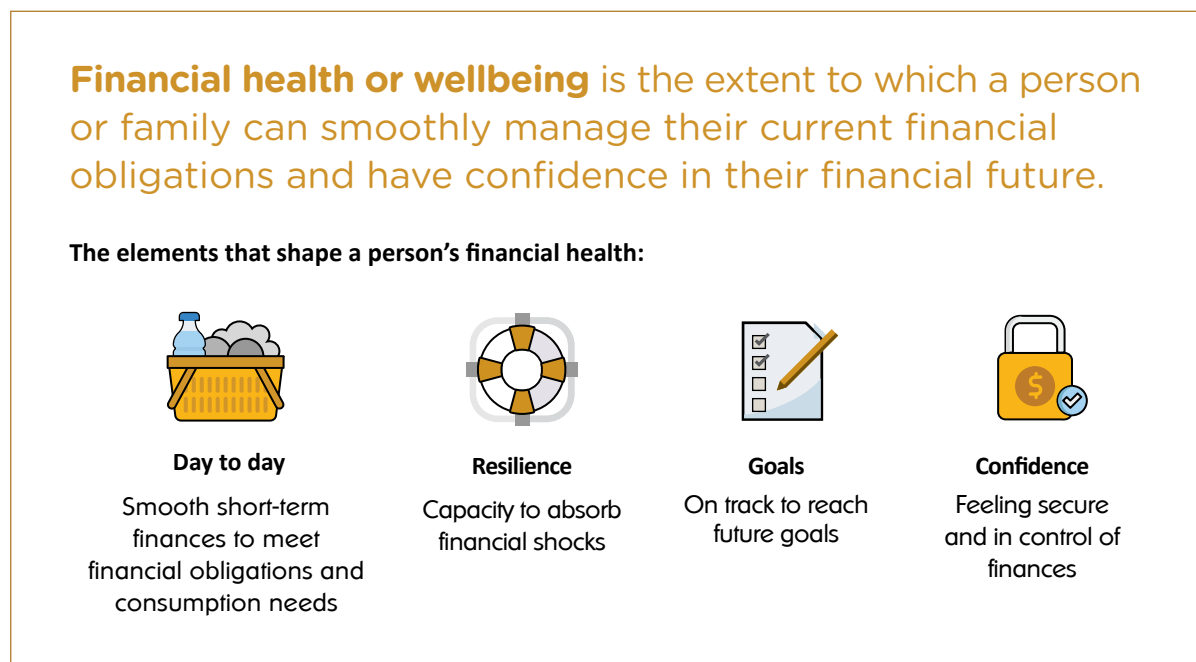
1. From interviews conducted by Dalberg during research for FHN’s project, Beyond Financial Inclusion: Financial Health as a Global Framework, 2017.

2. UNCDF has also been examining these questions, as discussed in their recently released white paper. (Singh, et al. 2021).

Defining Financial Health

The FHWG has adopted a definition of financial health along with four key elements that elaborate what it means to be financially healthy. (See Figure 1.) This wording blends definitions and elements from leading researchers and proponents of financial health, and it takes into consideration applicability across both high- and lower-income contexts.³ Although each proponent uses its own wording, all express the same core ideas. The FHWG puts forward its definition in the hopes of broad alignment, to give policymakers sufficient clarity to move beyond definitions to the work at hand.

Figure 1. Definition of Financial Health



We note that some experts prefer the term financial wellbeing to financial health, generally to highlight the feelings of confidence, or conversely stress, that accompany a given state of financial health. The concepts are so closely associated, however, that the FHWG uses both terms interchangeably.

The concept of financial health may seem intuitive, but it is helpful to consider it in more detail. In an effort to provide greater clarity while reflecting the work of the experts, the FHWG describes financial health as consisting of four elements. Three of the elements refer to the state of a person's finances across time, in terms of smooth day-to-day finances, ability to weather shocks, and being in a position to pursue and achieve longer term goals. The Commonwealth Bank of Australia helpfully characterizes these three elements as "Every day, rainy day, one day."

3. See Bibliography for references to several originators of definitions of financial health and wellbeing: the U.S. Consumer Financial Protection Bureau (CFPB), the Financial Health Network (FHN) and the work by Elaine Kempson and associates in several countries in Europe and Canada.

We add a fourth element, confidence. Most, but not all, researchers include perceptions and feelings about the state of financial health as an essential element. We include it here because asking people about their perceptions (feelings of security and in control of their finances) has been shown to reveal important information on the state of their financial health. And importantly, this element highlights the importance of freedom from financial stress as part of a person's overall wellbeing and as one of the goals of policies to support financial health.

These four elements can be used as building blocks to explore financial health in greater detail. They are clearly interconnected. For example, smooth short-term finances pave the way for investments in emergency preparedness and future goals. The FHWG finds it helpful to consider each of these elements distinctly, as each can be the focus of a productive policy and research agenda.

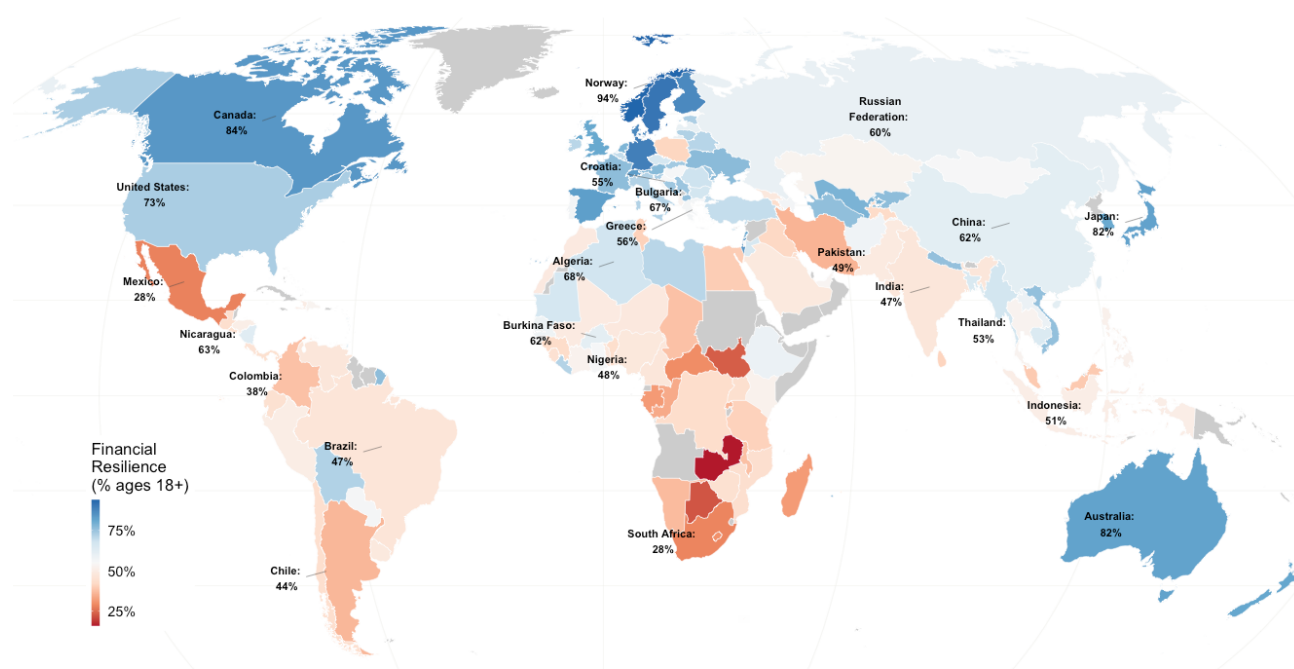
Financial Health Gaps Across the World

Poor financial health is a globally pervasive problem. Measurement of financial health across the world reveals large shares of the population in most countries struggling financially. The most geographically comprehensive measurement of financial health to date comes from the World Bank's Global Findex, which asked questions about the resilience element of financial health in approximately 150 countries in 2014 and 2017 and will do so again in 2021.

When it measured resilience by the ability to raise a lump sum (scaled by national per capita income) to meet an emergency, the Findex found wide variations across the world. Most of the population in Africa, Latin America and South Asia report an inability to respond to a financial shock, as do significant shares of the population in other regions. (See Figure 2.)

Figure 2. Financial Resilience Worldwide

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



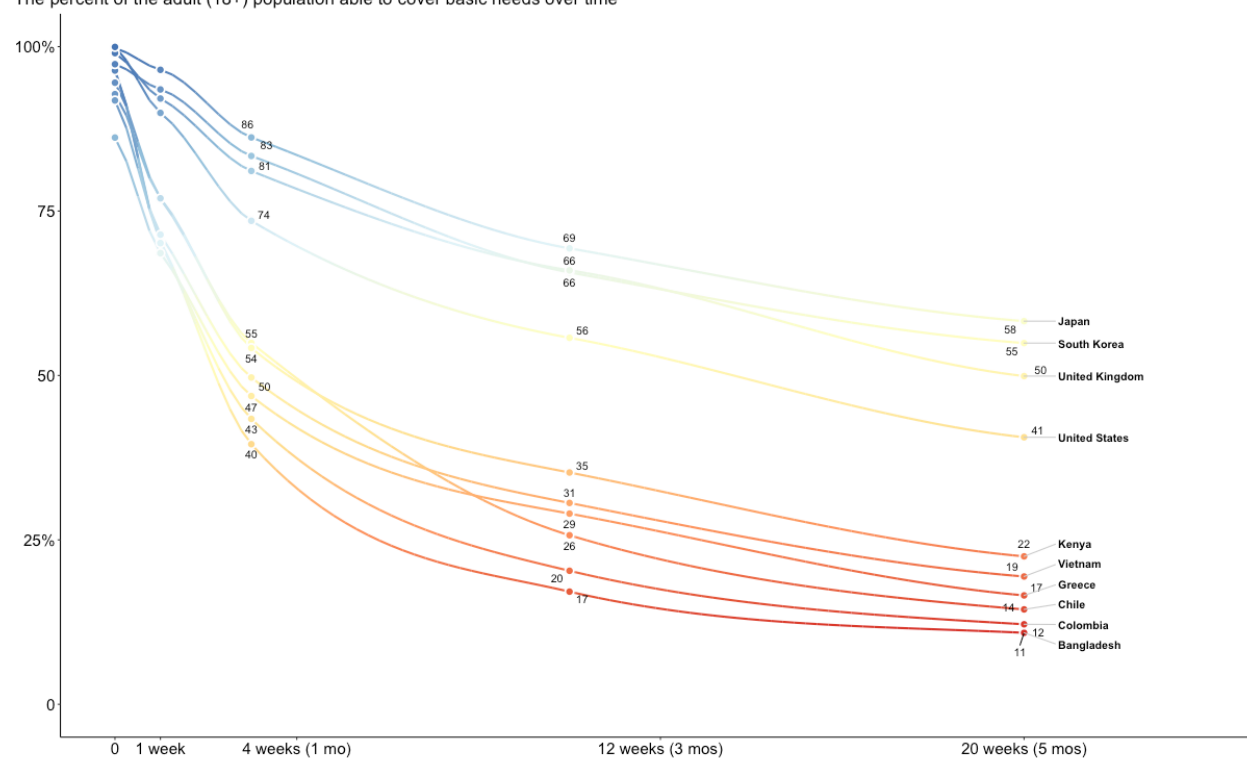
Source: Author's calculations based on World Bank Findex.

A related measure of resilience is a question about the time a person or family could maintain their basic needs if income were interrupted. A Gallup study of 10 high- and middle-income countries found that, after just four weeks, more than half of the respondents in the six countries with lower incomes would not be able to meet their needs. (See Figure 3) For these majorities, financial health hangs on labor income to such a degree that when shocks interrupt income flows, families face hardship or poverty. Such a scenario affected millions of families across the world in 2020 as a result of the Covid-19 pandemic, with an estimated 120 million people falling into extreme poverty. (Lakner et al.)

Figure 3. Ability to Cover Basic Needs during Loss of Income

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 percent of the adult (18+) population able to cover basic needs over time



Source: Author's calculations based on Gallup Financial Health survey. Notes: Survey responses referencing a time range have been positioned in continuous survival time as follows: No savings or things to sell = 0 weeks, 1 week or less = 1 week, 1 to 4 weeks = 3 weeks, 1 to 3 months = 10 weeks, 4 to 6 months = 20 weeks. The value on the y-axis represent the cumulative share of adults saying they could cover expenses at time t (in weeks) after an income shock.

Further confirmation of pervasive financial health deficits comes from a survey promoted through the OECD's International Network on Financial Education in 21 countries (mainly former Eastern Bloc and South American countries). Countries used a five-question scale developed by the U.S. Consumer Financial Protection Bureau (CFPB) to examine financial wellbeing. With possible scores ranging from 0 to 20, the average was 9.5, with the lowest score (6.9) in Georgia and the highest (11.4) in Austria. According to the report, "This suggests that on average the surveyed individuals do not consider their financial situations to contribute positively to their wellbeing, but rather to add stress and worry."

National averages mask the wide variation in financial health within countries. For example, the Latin American development bank, CAF, applied the CFPB measures in seven South American countries, and found that scores ranged very widely in every country.⁴ (CAF 2020) While responses clustered around moderate financial health deficits in every country, significant proportions of the population had either very poor or very good financial health.

It is perhaps surprising that although the wealthier groups tended to score higher, on average, the difference between higher- and lower-income segments was not great. In the most striking example, Paraguay, the average score for the high-income segment was 56.4 (out of 100) and for the low-income segment it was 55.7. Such results suggest that while it usually correlates with income, the financial health story is not solely or even primarily about income. An array of factors, working together, contribute to a person's overall financial wellbeing.

Part II. Policy Implications of Financial Health

What Factors Drive Financial Health?

The headline indicators discussed in the previous section sound an alert about the importance of financial health and the serious deficits that exist around the world. To inform policymaking, policymakers need to understand the factors that contribute to financial health.

Many factors, at both the individual and contextual level, interact over time to produce financial health outcomes. Financial health is influenced by long-term endowments and choices, and by immediate circumstances and events. It is the combined outcome of external factors that support or threaten a person's financial condition and the actions a person takes in response. While fully exploring the drivers of financial health is a matter for ongoing research, we can gain significant understanding through a brief review of several policy-relevant contributors to financial health.

1. *Income and expenses.* Adequate income is, of course, an important enabler of financial health, and higher-income people tend to be more financially healthy. What matters is not only the amount of income, but also its regularity. People whose incomes are both low and seasonal or volatile find it much more difficult to maintain financial health than those with stable salaries. In Kenya's 2019 FinAccess survey, for example, 47 percent of employed people were found to be financially healthy, compared with 33 percent of small business owners, 14 percent of farmers and only 8 percent of casual laborers. This consideration points to employment policies as essential concerns when examining financial health. For example, in some middle-income countries the reliability of income is a particular concern related to gig workers. (UNCDF, 2020)

Financially healthy people balance their expenses to match their incomes and use surpluses to invest in resilience and long-term goals. Evidence that the costs of basics like shelter and education prohibit this kind of saving or investment may highlight a need for policy focus in those areas.

While income and financial health are strongly associated, many financially healthy people exist across the income spectrum (except for those in severe poverty), and, as noted above, there are also many people with poor financial health at all income levels. These differences may be attributable to

4. The countries studied were Argentina, Bolivia, Chile, Colombia, Ecuador, Paraguay and Peru.

the overall risk context, available financial tools, and a person's behavior.

2. *Shock exposure.* By interrupting income or drawing down reserves, shocks reduce financial health, at least temporarily, and if shocks are severe, recovery can be slow. People who experience shocks, such as unemployment, health crises, exposure to crime, or accidents, tend to be less financially healthy. Exposure to shocks is often beyond an individual's control, and when they happen, the severity can be mitigated (or not) by policies and institutions. Macroeconomic, political and climate stability all reduce exposure to shocks, while safety nets, both formal and informal, reduce their severity or consequences. Universal health care, for example, may reduce both the incidence and financial severity of health crises.

3. *Individual habits and decisions.* A person's own decisions in preparing for and responding to life circumstances also influence their financial health. Financially healthy habits include regular small savings, spending control, debt management, prudent investing and seeking sound advice about protection from predatory practices and fraud. Financial education and capability-building efforts attempt to assist people to create healthier habits and avoid costly errors in decisions.

Because individual decisions contribute directly to an individual's financial health, a good deal of the work associated with financial health to date has focused on behavior, financial capability, literacy, and education. In fact, early research on financial health carried out by the U.S. CFPB was motivated by a desire to assess the efficacy of financial education programming. However, given the importance of systemic factors beyond the individual's control, individual behaviors cannot be the sole focus of financial health policy. Financial health is both an individual and a societal responsibility.

4. *Access and use of financial services.* Financial services enter the picture as tools for people to carry out their financial strategies, such as stretching their incomes, preparing for shocks or pursuing goals. If these tools are high quality and affordable, they may contribute importantly to financial health. This points to the value of incorporating a financial health perspective into digital and financial inclusion strategies, and, indeed, to viewing financial health as one of the key objectives of financial inclusion. It also points toward integration of a financial health lens in setting consumer protection priorities.

What Policies Support Financial Health?

Boosting financial health globally requires strengthening people's ability to generate, maintain and replenish savings and other safe financial assets. It also requires improving society's ability to provide reliable safety nets against both individual and systemic shocks, including for informal workers. These concerns stretch broadly across policy areas, including financial, social and employment policies. This report focuses on the main avenues through which policymakers in the financial sector can incorporate a concern with financial health, including reaching across policy boundaries in some areas. We consider four arenas for action: financial inclusion and consumer protection; financial capability and literacy; social and economic policies including social protection, employment, and health care; and macroeconomic effects, including financial system stability. While the connections between financial health and policies have been explored extensively in some high-income countries, research is still nascent on such connections in middle- and lower-income countries, and this report aims to initiate further consideration.

Financial Inclusion and Consumer Protection

Attention to financial health does not replace financial inclusion as a policy goal. Rather, it serves as a reminder that the purpose of financial inclusion is to improve lives. When inclusion began to appear as a national financial sector goal, financial policymakers around the world initially focused on access to services. As progress deepened, they also broadened their concerns to include usage and quality. Financial health is a next step in this evolution from the mechanics of access toward value for customers. Core goals related to financial wellbeing have already been incorporated into many national financial inclusion strategies, though not always explicitly. A more explicit recognition of financial health as a goal, accompanied by measurement of gaps in the financial health of the population – especially the newly included – can help policymakers set a financial inclusion agenda that is clearly focused on positive outcomes for individuals, households and small businesses.

A financial inclusion agenda oriented toward financial health will include evaluation of how financial services shape broad customer outcomes. Policymakers may decide to focus on groups that are included but are not financially healthy, such as gig workers. (See UNCDF, 2020) They may pinpoint particular challenges that research reveals – emergency savings in one country, or credit card debt in another. They may promote innovations that support financial health, such as budgeting apps.

As regulators incorporate a financial health perspective into their oversight, they may investigate whether and how the main types of financial services delivered in their markets support financial health.

- *Savings services.* Savings is a cornerstone for at least two elements of financial health – resilience and long-term goals – and thus, savings products should be safe, available and easy to use. Encouraging savings is a key element in any financial health-oriented policy set.
- *Payments.* Cheap, effective payment products are essential for day-to-day financial health, especially for government safety net programs that help smooth and bolster incomes for lower income people. Digital payments (mobile money) have been shown to increase the ability of people to use their social networks to manage shocks. (Suri and Jack, 2016)
- *Credit.* Access to credit can support resilience and long-term goals, but too much debt is one cause of poor financial health, providing an important justification for consumer protection regulations. Some studies have found that use of credit for everyday needs is a frequent signal of poor financial health. (Kempson and Poppe)
- *Insurance* reduces the financial consequences of specific types of shocks, contributing to resilience. While access to insurance remains low worldwide, expanding insurance through public- and private-sector offerings is particularly salient for improving financial health.
- *Investments and pensions* are critical for attaining long run goals and confidence in one's financial future

Of course, policymakers are already deeply engaged in oversight in all these areas. Adding a financial health perspective can prioritize the areas that have greater impact on financial health. Detailed policy choices can only happen in a specific context, as licensing, supervision and market conduct authorities examine emerging practices and identify the most important financial health deficits associated with them. For example, a growing challenge comes from consumers caught into debt

traps that sap their financial health after borrowing from unethical digital lenders.

An increasing number of financial consumer protection regulators are moving towards customer-centric approaches such as customer outcome frameworks. (Izaguirre, 2020) In addition, financial consumer protection supervisors are increasingly adopting market monitoring tools to analyze the nature of consumer risks that could affect consumers' financial health. Financial health measurement could become an important complement to existing market monitoring tools, giving supervisors a picture of the situation of consumers, and signaling possible consumer risks. (CGAP Market Monitoring Toolkit forthcoming.)

Supporting Healthy Habits and Decisions: Financial Education from a Financial Health Perspective

Significant deficits in financial health point toward the need for the public sector to direct resources to building customer capability. The main challenge is finding effective ways to do so.

Evidence, such as the CAF studies cited above, shows that higher levels of financial capability are related to greater financial wellbeing. Among the capabilities that contribute to financial health are attitudes, knowledge, skills and behaviors such as regular savings, spending control, comparison shopping for financial products, participation in the financial decisions of the household and others.

National financial education strategies that incorporate a financial health perspective would have at their core the objective of financially capable customers who have healthy financial habits and make good financial decisions. Traditional financial education programming assumed that transferring information to financial consumers about financial products will lead to better choices. However, evidence from numerous impact evaluations over the past decade suggests that this assumption is flawed.

A more promising path is the use of insights from behavioral economics in the design of financial education, changing the goal and the tactics from information transfer to capacity building, which often means integrating financial education into the process of using financial services to promote learning-by-doing. A growing body of evidence shows that interventions designed using principles from behavioral economics that address decision making are more likely to improve money management behavior. Financial decisions are often complex, require tradeoffs and uncertainties, and involve both aspirations and fears. As a result, people often make decisions that do not reflect their best interests. Behavioral science seeks to understand how and why individuals behave in a specific way, how they process information and how context affects their behavior. Behaviorally-informed interventions include prompts, defaults and advice embedded into the process of using financial services.

With this in mind, as policymakers allocate resources for financial education programs, they can shift its focus toward financial health outcomes, using behavioral insights to design programs that work.

Box 1. Mexican Pension Agency: Behavioral Design to Promote Retirement Savings

In Mexico, where an increasing portion of the population is reaching older age, over half of all workers are informal. Informality poses a challenge for policymakers concerned about the financial health of older people because they cannot use their most powerful behavioral tool: default sign-up to automated savings. Women, who are much more likely to be informally employed, are especially affected. In 2015, the Mexican government's National Survey on Financial Inclusion found that while half of all men were saving for retirement, only one third of women were doing so.

The Mexican pension agency, CONSAR, worked with behavioral economists from Ideas42 to design ways to encourage greater pension savings by informal workers who were not automatically connected to pension programs. They developed communications messages and strategies to motivate retirement savings, such as emphasizing benefits to both individuals and their families, and they trained staff to deliver messages. They combined retirement savings sign-ups with other government processes. In controlled trials, the strategies proved successful at increasing pension sign-up and contributions, but they were insufficient to close the gap with the formally employed.

Employment, Social Protection and Health Policy

As discussed above, forces in a country's broader economic landscape powerfully influence a person's financial health. Labor policies and the social safety net help determine both the level and volatility of incomes, and the health financing system determines how financially vulnerable households are to health shocks. For governments unable to provide adequate safety nets, increased financial health could help people to cope without government assistance.

Employment, social protection and health policies are deeply embedded as major elements in a country's social and political make-up, and significant change requires political will. Information on financial health can help point the way toward significant changes. For example, as in many countries, the conditional cash transfer program in the Philippines was originally designed to discourage beneficiaries from saving their benefits as the intent was to support immediate living expenses. Savings were seen as a signal that the beneficiary may not need assistance, and so recipients could only access their funds by cashing them out. However, the Central Bank argued for the importance of savings for resilience. It advocated for adjustments that made the receiving accounts fully transactional and enabled beneficiaries to save any unspent money in their own accounts.

For financial sector policymakers, recognition of the relationship between financial health and broader policies, such as employment, social protection and health care, suggests a need to collaborate across government. In a recent publication, the Aspen Institute argues that the relationship works both ways, and that financial sector policies are intimately connected with broad social policies, through their impact on the financial health of individuals. (Rademacher and Wallace, 2021) Many national financial inclusion strategy committees or secretariats already include representatives of multiple agencies. A financial health perspective further underlines the value

of a “whole-of-government” approach. One way financial policymakers can contribute is through measurement of financial health and dissemination of the results. These results can shed light on the effect of broad economic trends, as discussed in the next section.

Box 2. Broadly Applicable Financial Health Policies

Although developing specific policies to support financial health requires context and diagnosis, many policy directions are widely applicable, such as:

- 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 for families to build savings buffers worth three months of expenses; tax incentives for such savings, where fiscal resources allow
- Protect consumers from credit products that encourage over-indebtedness. Example: Limit loan products that feature repetitive short-term borrowing.

Macroeconomy: Financial-Sector Stability and Fiscal Policy

Information on financial health – the ability of the population to meet short-term needs, cope during an emergency and pursue long-term goals – is directly relevant to macroeconomic policy setting. While links between financial health and macroeconomic stability have not been well-studied, widespread financial health challenges may affect both fiscal policy and financial sector stability.

The potential links were recognized early on by the U.S. Federal Reserve, which since 2013 has queried U.S. households on their financial health, notably by asking in an annual survey of household economics about their ability to access \$400 to meet an emergency. During the Covid-19 pandemic, [the U.S. Federal Reserve’s survey](#) showed financial policymakers that most Americans were not depleting their financial reserves below pre-pandemic levels, due both to the government’s fiscal stimulus payments and the lower personal spending that lockdowns produced. Regular financial health measurement can yield both early warnings related to the need for social protection or the build-up of debt among households, among others, and, as in the example, they can confirm the results of policy decisions. Such measures offer a perspective that is distinct from the usual indicators based on monetary volumes, emphasizing instead the impact of policies on individuals, households and small businesses. (See Box 3.)

Box 3. Financial Health during the Covid-19 Pandemic: Impact on Governments and the Financial Sector

The pandemic experience illustrates the importance of financial health for individuals, families and small businesses, with consequences in the public and financial sectors. Evidence prior to the pandemic, such as from the Global Findex, indicated that major segments of the population in most countries could not raise even a modest sum to cope with an emergency. When the Covid-19 emergency hit, families without access to relief programs quickly depleted their reserves, and many families reduced consumption. At the worst, many fell into food insecurity.

The human toll of this crisis directly affected the financial and government sectors. Financial institutions experienced immediate stress as loan repayments fell, requiring financial authorities to maintain the liquidity and solvency of financial institutions by relaxing reserve requirements, allowing use of moratoria without provisioning and other emergency measures. Financial systems have generally weathered this storm, but at a serious cost.

Government budgets were also tapped to support consumption during the pandemic, including through social protection payments in those countries where governments could afford them. One study found that pandemic related social protection payments totaled USD 800 billion (Gentilini, Almenfi and Dale, 2020). Analysis by the Center for Financial Regulation and Inclusion (CENFRI) showed significant correlation between population financial health and public expenditure to support people during the pandemic (unpublished note prepared for FHWG). In the U.S. and Australia, extraordinary relief programs helped maintain financial health (CBA, Federal Reserve), but such relief was not available in lower-income countries.

The pandemic demonstrates that to build a more inclusive and resilient world, both governments and financial-sector actors have a strong interest in supporting families and small businesses to be more financially resilient. It will take time for financial health to recover, but policymakers and practitioners need to assist families to rebuild their savings and resilience base and be better prepared for the future.

Part III. Working with Financial Health

The interest in financial health is growing rapidly around the world, and the FHWG has heard from policymakers that they are interested in learning more and deepening their practice. This section provides suggestions and resources that policymakers may wish to use. It begins with measuring financial health, then moves to deeper forms of engagement, such as integrating financial health into the work of regulators and supervisors, building a financial health “ecosystem” of engaged organizations, fostering a research agenda, connecting with the emerging global financial health community and finally, observations for funders.

Measurement

Measurement is the entryway to a focus on financial health, and many policymakers will want to begin by assessing the financial health of their populations. Most financial health efforts are anchored around a short module of key questions that, when combined, reveal the financial health “temperature” of a person or group. These short modules allow for rapid assessment across many situations. Once the module is well-tested, researchers can drop it into existing surveys to assess financial health in the context of other areas of interest. For example, the OECD/INFE survey of financial literacy includes the CFPB financial health questions to examine how financial literacy and financial health interconnect. A short module is also very useful to allow organizations without deep statistical expertise or resources, importantly including financial institutions, to measure the financial health of their customers or groups of interest.

The FHWG recommends that policymakers develop, test and promote a short financial health module that is relevant in their countries. This effort could be housed in a financial inclusion secretariat, in the consumer protection area, or in a statistical and research department. To begin, a module from another country can be adopted, but since most of the existing modules were developed in high-income countries, it is advisable to work quickly towards a module appropriate for the specific country context. It may be useful to connect with the policymakers in other countries, such as Brazil, Colombia, Kenya or Mexico, who have already begun to measure financial health. While short modules are essential tools in financial health, they provide only a high-level picture, and they must be supplemented by deeper analysis in order to provide the granularity of insights needed for policymaking.

Policymakers have repeatedly asked for globally recognized indicators that can support cross-country comparisons and benchmarking. The resilience questions of the Global Findex and the CFPB questions that the OECD/INFE survey incorporates could be initial building blocks for a global financial health module. Such a module would not replace locally adapted measurement, but would enable broad international comparisons. The FHWG recommends a process to develop such a globally tested financial health module as an important next step in the financial health agenda.

To assist policymakers who want to begin measuring financial health in their countries, the FHWG has prepared a technical note on measurement that is a companion to this report, *Measuring Financial Health: Concepts and Considerations* (Gubbins et al., 2021).

Box 4. Monitoring the Market with Financial Health Scales

To learn how financial consumers are faring, authorities overseeing market conduct and consumer protection could apply a financial health monitoring tool to identify emerging problems or positive customer outcomes, promoting a customer-centric approach to market conduct supervision.

National statistics bureaus typically conduct detailed surveys annually or every few years. While they may contain financial health questions, they are too infrequent and cumbersome for market monitoring. A short financial health scale with accompanying scoring method can be deployed using automated survey technologies to obtain results in time to observe relevant market signals.

Financial health scales use simple sentences and plain language, which allow consumers to self-administer them. The questions can even provoke self-reflection, creating a teachable moment to steer consumers toward sources of financial advice or coaching. In this way, a market monitoring tool could also serve a financial education purpose.

Depending on the questions, a financial health monitoring tool could provide important insights such as:

- Early warning of rising debt burdens, possibly before portfolio quality deteriorates
- Preparedness to meet financial shocks and adequacy of emergency savings
- Gaps in short-term money management that can lead to larger problems
- Identifying financial status by segment: gender, income, location, use of financial services, etc.
- Changes in sentiment regarding financial wellbeing

Creating a financial health market monitoring tool requires up-front investment to determine how to administer it, test the questions, validate scoring, and analyze results. For a quick start, authorities could simply apply an existing scale. However, to ensure local relevance, they would need to test and validate the scale. Financial health scales are discussed at length in the accompanying technical note, *Measuring Financial Health: Concepts and Considerations* (Gubbins et al., 2021).

Developing a Financial Health “Ecosystem”

With some exceptions, improving financial health at scale is not the result of a sweeping policy decision, but of many actions by public and private organizations. In countries attuned to financial health for a decade or more, an “ecosystem” has grown, involving regulators, financial service providers, academics, non-profits and others. In such an ecosystem, only a few organizations focus exclusively on financial health, but many organizations across the financial sector embed financial health into their thinking and operations.

As financial health becomes a pervasive lens, financial sector policymakers foster innovative products and services that improve financial health and direct public resources toward financial education and advice. Academics examine the drivers of financial health and the financial health of special population groups, and a lively public dialogue exists about how health, employment and social

protection policies affect financial health. These activities are underpinned by regular measurement of the state of financial health for relevant groups. Over time, the knowledge about and commitment to financial health deepens and spreads across key institutions, and this is how long-term change can occur.

Policymakers are well-positioned to seed the development of such an ecosystem. One way to signal this commitment and align many players is to incorporate financial health into national financial inclusion and/or financial education strategies. Seeding an ecosystem need not be costly, if policymakers use their authority and influence to spark action by others. For example, they could encourage innovations that support financial health, or use their convening power to develop a research agenda. The UK's Money and Pensions Service was mandated to nurture a mature financial health ecosystem across many sectors of government and the economy. (See Box 5.)

Box 5. The UK Money and Pensions Service: Supporting a Financial Wellbeing Ecosystem

When research in the UK revealed serious financial wellbeing deficits throughout the population, financial health advocates spearheaded the creation of the Money and Pensions Service (MaPS), which launched in 2019. MaPS is a government agency, funded by levies on financial institutions and pension providers, with the sole aim of promoting financial wellbeing. It provides financial advice directly to the public and it encourages other organizations to implement financial wellbeing activities. Many MaPS activities involve building financial capability, but MaPS also seeks to influence regulation, financial institutions, markets and the broader culture.

After identifying the most serious financial wellbeing problems in the country, MaPS developed the UK Strategy for Financial Wellbeing, focusing 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

Although these goals involve household-level behavior changes, many organizations must act in order to achieve them – schools, banks, fintechs, debt counselors, pension schemes, employers, media and others. MaPS works to mobilize these organizations. It can provide some resources, but much of its impact occurs through convening, research, and advocacy. MaPS also collaborates with the UK Financial Conduct Authority on consumer protection topics, such as improving access to debt restructuring in support of their fourth goal above.

Working with the Private Sector

Financial sector policymakers can nurture the growth of a financial health movement in their private sectors. Many financial services companies, especially in higher-income countries, have begun to track the financial health of their customers and to design products and services to support financial health. This interest is spreading to a growing number of banks, fintechs and other companies in middle- and lower-income countries. Private companies act when they see a business case for engagement with financial health. Companies have found wide-ranging benefits, from customer loyalty and profitability, to attracting new customers, to improved employee morale and productivity.

Among the private-sector efforts to foster financial health are the following:

- *Measurement.* Many financial institutions wish to track the financial health of their customers, so they can better design and target their services and test their efficacy. If a national financial health scale is available, as discussed above, companies can do this easily and cheaply, and can compare their customers to national benchmarks. In the U.S., the Financial Health Network convenes a group of financial service providers using its FinHealth Score as a measurement tool. Financial institutions are in a unique position to use customer transaction and account data to assess financial health, as seen in efforts such as the Observed Financial Health scale developed by the Commonwealth Bank of Australia.
- *Behaviorally informed product design.* To develop products and services that support financial health, many financial institutions are working with behavioral design experts. They are crafting products specifically focused on financial health, for example, budgeting tools. They are also adjusting the features of existing products, for example, by cutting back on the use of overdraft fees. Digital technology is at the center of many such innovations.
- *Employee financial health.* Many financial service providers have found that their own employees are the best place to begin working on financial health. When employees are financially healthy, they miss work less often and can be more productive while at work. Companies have taken steps including automating payroll savings, financial coaching and ensuring that all employee wages are sufficient to support financial health. Such efforts are relevant for all large employers, not only those in the financial sector.

Policymakers can promote these efforts by emphasizing the responsibility of financial services providers toward their customers. They can also mobilize grants for research, piloting, awards and recognition and they can encourage start-ups that contribute to financial health.

Box 6. ING's Financial Health Strategy

ING Bank promotes financial health as part of its commitment to the UN's Sustainable Development Goals. The bank conducts and shares research on why people make financial decisions, and organizes its actions into three categories: information, innovation and involvement.

Information. The right information (at the right time) can help people make better financial decisions.

- **Planning.** In the Netherlands, the "Kijk vooruit" ("Look ahead") forecasting tool gives customers an overview of their planned and predicted transactions.
- **Coaching.** The "Digitaal vooruit" ("Digital forward") initiative in the Netherlands places coaches in pop-up stores.
- **Workshops.** EmpowerCamp in Austria and Romania helps customers understand their financial profile and improve their finances.
- **Videos.** YouTube videos give people financial insights. In Poland, for example, these kinds of videos have had over 100 million views.

Innovation. Financial health tools differentiate ING's product offerings.

- **Automated savings.** In Australia, Everyday Roundup allows customers to round up card purchases to the nearest dollar, then moves the difference to their savings or mortgage account. This has so far resulted in savings of €46.6 million in 300,000 ING customer accounts.
- **Digital investment advisors.** My Money Coach in Spain and Coach Epargne in France.
- **Subscriptions management.** ING partnered on the development of Minna, an app that helps customers avoid paying for subscriptions they no longer use.
- **Behavioral nudges.** A feature on ING's banking app prompts customers with little savings to save more. ING tests the effectiveness of such nudges and continually adjusts them.

Involvement. Community and global connections broaden the reach of financial health efforts.

- **Youth and women programs.** The Youth Perspective Fund in the Netherlands offers an innovative approach to helping people aged 18 to 27 manage their debts, with coaches working with young people to plan and get their finances in order. Social Builder in France provides three months of digital skills training to women with a social project who have been particularly economically affected by the coronavirus crisis. The aim is for them to generate revenue and get to financial independence quickly.
- **Staff involvement.** Hundreds of ING colleagues take part in Global Money Week each year, volunteering in classrooms across Europe and beyond.
- **Financial counseling.** ING is a founding partner of the Nederlandse Schuldhulproute, a public-private collaboration to prevent and solve problematic debt. In Romania, the program Banometru helps adults with financial difficulties with financial planning and counseling.

Participating in the Global Financial Health Community

As interest in financial health and wellbeing spreads, policymakers and financial service providers express eagerness to learn from the experience of others. International organizations are involved, and regional efforts are beginning. The following is a selection of multi-country initiatives.

- The UN Environment Programme's (UNEP) Financial Institutions program is developing guidance for its many participating financial institutions on financial inclusion and financial health.
- FHN works with dozens of private companies to incorporate financial health into their operations.
- UNCDF is establishing a Centre for Financial Health as a hub for a wide range of activity (See Box 7).
- CAF supports the measurement of financial health and its incorporation into national financial inclusion and financial education strategies in multiple countries in Latin America.

A major challenge is to adapt the concept of financial health to a low-income country environment, where incomes are so low and precarious that only a small proportion of the population is likely to achieve secure financial health. In these settings, financial inclusion is often low, and financial lives are mainly informal, making it hard to measure financial health. While it is difficult to achieve robust financial health on a very low and precarious income, people in such population segments do find ways to make the best of their situations. Learning more about these strategies and designing interventions to support them could be an important way to foster greater financial health in resource-constrained countries. One lower-middle-income country that has begun exploring financial health is Kenya, through its FinAccess studies. Others are likely to follow.

Box 7. Introducing the UNCDF Centre for Financial Health

UNCDF's Centre for Financial Health, based in Singapore, will help public- and private-sector actors build a shared understanding of financial health and promote financial health-focused initiatives. It will mainstream the concept among key stakeholders as an important evolution of the global financial inclusion agenda, with actionable measurement frameworks and tools.

As it launches, the Centre will pursue three main programs: communities of practice; research and measurement; and a special initiative known as Living Labs. To support the design and delivery of interventions that can demonstrate substantive customer impact, the Centre also seeks to develop an impact fund, with incentives for market actors to invest in financial health solutions.

Communities of practice. The Centre will provide tools and advisory support to create an environment for collaboration and evidence-sharing on best practices and models for the financial sector. This will include discussions and dialogues (at global, regional and country levels), as well as dissemination of tools, research results and insights. The Centre will

convene organizations, aiming to establish regional and country-level coalitions with the public and private sector.

Research and measurement. The research and learning agenda encompasses questions ranging from how customers prioritize financial health outcomes to financial initiatives that can inhibit or drive financial health. A broad set of research questions will explore the determinants and outcomes around financial health. Another set will advance knowledge of how to measure financial health. The Centre will also explore how to source and manage data on financial health so that they become ongoing resources for financial sector actors. It will make this evidence accessible and relevant for stakeholders from financial service providers and fintechs to policymakers and regulators, so that products and policies are designed and delivered via a financial health lens.

Living Labs. These locally based centers (the first ones in China, India and Malaysia) will develop, test and scale financial-health solutions for specific priority segments. The segment-centric approach will aid in development of targeted initiatives for customer groups. Focus segments include rural and agriculture, micro and small business, gig economy workers and the aging population.

The Financial Health Research Agenda

Financial health is a young area of study, and many important questions need to be investigated. Continuing research will help illuminate the policies and services that can best contribute to improving the financial health of the population. Financial sector policymakers can conduct their own research, and they can influence other research organizations to put the most important questions into their own research agendas. The following is a brief summary of financial health research priorities.

1. *Understanding the elements of financial health.* The four elements of financial health – day-to-day, resilience, goals, and confidence – provide fertile ground for research. How does day-to-day financial success pave the way for greater resilience and achievement of goals? How do people maintain daily consumption with seasonal or volatile incomes? What shocks do people experience and how often? How do people prepare for, respond to and recover from shocks? How well are people succeeding with respect to essential goals such as housing, education, starting a business and retirement? These questions call for in-depth, qualitative, demand-side research.

2. *The drivers of financial health and the resulting action implications.* In Part II, we noted that a person's financial health status results from their decisions, which take place in a context set by their income, financial capability, exposure to risk and available tools for managing finances. More learning about these drivers can lead to better identification of ways to support good financial health.

3. *The measurement agenda*

- Special segments. A major area for measurement is the financial health of various subgroups.

The financial health status of women needs special attention, as women have been shown to be less financially healthy, on average, than men. Very poor people are another important group to study, as are smallholder farmers with highly seasonal income.

- Globally relevant indicators. To begin developing international benchmarking, it will be important to develop a set of indicators of financial health that have been validated in multiple countries. This will require a concerted multi-country research effort.
- Use of hard data (transactions, accounts, etc.) to measure financial health. A few researchers, such as those working with CBA and FHN, have developed financial health scales using hard data. This work is accelerating.

4. *Financial health and the use of financial services.* In order to draw conclusions about the use of financial services that will be useful for oversight of financial institutions, research is needed on the ways use of savings, credit and payments services are contributing to financial health, or if used improperly, weakening it.

5. *Evaluation of financial health policies, programs and products.* As policymakers and providers work to promote financial health, their efforts need to be evaluated so that successful efforts can be carried forward. For the private sector, questions around the business case for financial health are core to the spread of pro-financial health practices. This research includes both impact evaluation and case studies.

6. *Intersections.* The relationships between financial health and financial inclusion, the SDGs, financial sector stability and social safety net policy need further examination.

Priorities for Funders

If funders take financial health seriously, they will consider it both as a program area for direct funding and as a lens for shaping funding programs in a variety of realms. Funders that support financial inclusion are increasingly turning their attention to customer outcomes. The progress the financial inclusion movement has made in widening access and moving momentum for expanding access into the private sector allows forward-looking funders to focus on ensuring that the financial services newly included customers use will help create healthier financial lives. Funders focused on health, education and economic empowerment can also benefit from a financial health lens, because financial health is a key enabler of success in these areas. They can work on improving the financing of health and education, recognizing that financial health gaps often create gaps in health care or education.

Because financial health is an emerging area, there are many opportunities. These can align with a funder's preferred role, whether the funder supports implementation, policy, or research, and whether its support goes to governments, non-profits or the private sector. A few priority areas include:

- *Enabling policymakers and financial service providers to incorporate financial health.* In most countries around the world, financial health is only beginning to be recognized as an important perspective. Seed money can help overcome initial uncertainty, enabling initial investments that organizations can subsequently take forward. At this stage, many such investments will focus on measurement; program and product design will follow.
- *Promoting the global financial health movement.* Financial health does not have an organizational home in the international development community, and that may be fine: it should be

incorporated into the work of many international development organizations. Still, there are needs for centers of excellence and knowledge-building on financial health, as policymakers and financial service providers express eagerness to learn more, especially from peers.

- *Research and experimentation.* As outlined above, the research agenda for financial health contains many promising areas for exploration. Policymakers and providers alike are calling for evidence to enable them to make resource decisions with confidence, and this makes rigorous program evaluation a must.

A few funders already use financial health as a prime strategic consideration. (See MetLife’s example.)

Perspective

MetLife Foundation’s Pivot to Financial Health

By Evelyn Stark, MetLife Foundation

In 2013, MetLife Foundation committed \$200 million over five years to support financial inclusion globally. However, we found that “financial inclusion” is not always well-understood. While those who were deeply immersed in the topic understood financial inclusion to be about access and use of quality, affordable financial services, others simply focused on whether one has a bank or mobile money account. This was reinforced by the widespread use of the Findex headline metric, “515 Million New Accounts.” We wanted to refocus attention onto the quality and utility of the services provided to the newly included.

Meanwhile, in the U.S. – a country with almost full financial inclusion – we were increasingly struck by reports that large portions of the population were very clearly not financially healthy. The Federal Reserve’s Survey of Household Economics demonstrated that 40% of Americans didn’t have cash readily available for a \$400 emergency. The savings rate was regularly below 7%, while credit card debt was well above. The 2017 US Financial Diaries painted a picture of financially “included” Americans with irregular incomes, who used informal financial tools and high-interest debt (credit cards, payday loans, bank overdrafts) to manage their daily lives.

MetLife Foundation’s first step toward a financial health practice was to sponsor FHN’s efforts to measure U.S. financial health. As this gained traction, the Foundation, working with Rockefeller Philanthropy Advisors and Gallup, devised a short survey on financial security (defined as the ability to cover basic needs for more than six months and having manageable debt) and financial control (referring to the perception that one can influence their financial situation). It was clear that perceptions of control did not match financial security. To varying degrees, most people believe themselves to be in greater control of their financial lives than their financial security warranted. Worse, the relationship between financial inclusion and financial security was not clear. For example, in high-inclusion Kenya, only 9% were financially secure.

We are pleased that our work has supported a shift in the conversation from an overly simplistic notion of inclusion to the more nuanced measurement of financial health and wellbeing. Using what we have learned, we have focused our funding on programs that can help financial services contribute to the efforts of low-income people to meet their life goals: a safe and secure place to live, good health and the ability to raise and educate their children, and enjoy a healthy old age.

Summary of Recommendations

Throughout this paper, the FHWG has made recommendations for policymakers, urging them to engage with the financial health concept and pointing toward ways to do so.

Make financial health a core purpose of financial sector policy. In national financial inclusion strategies, an explicit recognition of financial health as a goal serves as a reminder that the purpose of inclusion is to improve lives. The financial inclusion agenda can focus on positive outcomes for individuals, households and small businesses, so that the newly included will be enabled to better manage their financial lives. Recognition of the relationship between financial health and policies such as employment, social protection and health care suggests a need to collaborate across government.

Use financial health as a lens for financial sector oversight, especially for consumer protection and financial education. In their financial inclusion and consumer protection policies, financial authorities can ensure that the financial services people use are conducive to good financial health, and through behaviorally informed financial education, they can support financially healthy habits and decisions.

Measure financial health. The FHWG recommends that policymakers develop a locally relevant short financial health module, use it frequently to track changes in the market, and make it widely available for many organizations to use. The FHWG also recommends a process to develop a globally tested financial health module for cross-country benchmarking.⁵

Foster a financial health ecosystem with engagement by the private sector and others. Improving financial health at scale requires actions by many organizations, and policymakers can use their influence to spark development of a financial health ecosystem across the public and private sectors.

Incorporate financial health into national financial education strategies, supporting programs that assist consumers to build healthy habits and decision making. Use behaviorally informed approaches and ensure adequate resources for such programming.

Pursue a financial health research agenda. Financial health is a young area of study, and research is needed to illuminate the policies and services that can best contribute to improving it. A major challenge is to examine financial health in low-income environments where only a small proportion of the population is likely to achieve secure financial health.

Tap into the growing global financial health community through initiatives such as UNCDF's Centre for Financial Health in Singapore, CAF's support for measurement of financial health and its incorporation into national financial inclusion and financial education strategies in Latin America, UNEP's guidance for financial institutions on financial inclusion and health, and FHN's work with dozens of private companies to build financial health into their operations.

Financial health matters to individuals, families and small businesses everywhere. Policymakers who understand how financially healthy their populations are can make important contributions to improving the wellbeing of those populations.

5. For more on measurement, see the FHWG technical note: Measuring Financial Health: Concepts and Considerations (Gubbins, et al. 2021).

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