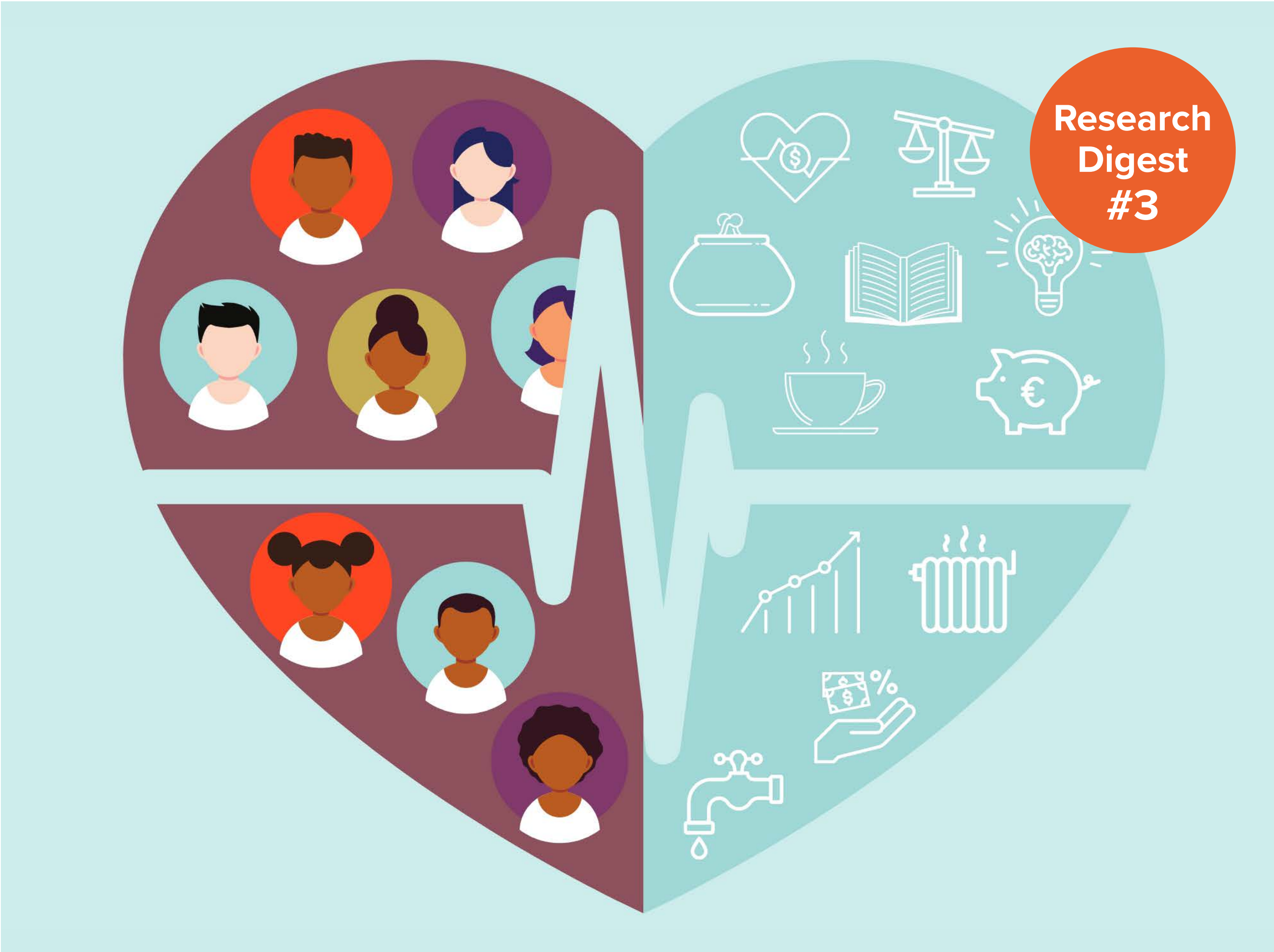

IMPLEMENTING FINANCIAL HEALTH: CREATING MUTUAL SUCCESS FOR FINANCIAL SERVICE PROVIDERS AND CLIENTS

By Max Niño-Zarazua, Aurélie Larquemin and Davide Castellani in collaboration with the European Microfinance Platform (e-MFP) 'From Research to Practice and Back Again' Action Group

EUROPEAN MICROFINANCE PLATFORM
ADVANCING FINANCIAL INCLUSION

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AG on Research

From research to practice and back again

The e-MFP 'From Research to Practice and Back Again' Action Group aims to bring together researchers, university students and practitioners in order to promote the learning of microfinance and financial inclusion; identify research needs of practitioners; identify different sources of data to conduct research; and disseminate and increase the impact of research by translating research results into practical guidance and solutions.

The Action Group is led by Davide Castellani (University of Bergamo) and Max Niño-Zarazua (Independent Consultant) and members include ADA, ILO, MFR, Amarante Consulting, MSC, CARE International UK and HEDERA Sustainable Solutions.

The Research Digest publications aim to explore the top research needs of practitioners, compiling and translating research conducted in the sector into practitioner-friendly language. To the extent possible, the publications will privilege mixed methods approaches, integrating the analysis of both quantitative and qualitative data and including diverse sources of information.

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INTRODUCTION

Over the last ten years, there has been a global coalition between donors, governments, multilateral organisations, and the financial sector to improve the financial inclusion (FI)[1] of unserved and underserved people, particularly from the so-called Global South. International organisations such as the Alliance for Financial Inclusion (AFI), Financial Sector Deepening (FSD), UN Secretary General's Special Advocate for Inclusive Finance for Development (UNSGSA), United Nations Capital Development Fund (UNCDF), the World Bank, and other financial inclusion advocates have been working towards the same objective. For example, the Maya Declaration movement led by AFI has brought 76 countries around the world to sign institutional commitments to implement national policies and strategies to increase financial inclusion (AFI, 2023).

This global effort has given clear results in FI since adult account ownership increased from 51% to 76% between 2011 and 2021 globally, and from 42% to 71% in developing countries (World Bank, 2021). However, as Castellani *et al.* (2023) argue, increasing account ownership or even financial usage may not necessarily mean that people are financially healthy[2] or that they use products and services that are beneficial to them and are not predatory. Kenya is a good example of this argument. Over 15 years, Kenya's FI increased from 26.7% in 2006 to 83% in 2021. This is mainly due to the increasing use of digital financial services like digital payments that has revolutionised the financial landscape in Kenya, bringing millions of Kenyans from remote areas to make financial transactions daily. Despite this extraordinary achievement, the population's financial health has declined from 39.4% in 2016 to 17.1% in 2021 (FinAccess, 2021)[3]. The exclusive focus on increasing financial access and the implementation of more effective technology to facilitate the usage of financial services is an incomplete effort to improve the financial health of people, particularly when they are also affected by other micro and macro socio-economic factors such as changing consumption preferences, lack of labour market opportunities, rising inflation and problems of over-indebtedness due to aggressive lending practices of some financial service providers (FSPs) (e.g. Cambodia) which can increase financial stress and inhibit their clients' ability to cope with their present and future financial needs.

Therefore, it is imperative that actors across the FI ecosystem, particularly FSPs, take a step forward in the provision of financial services and explore business models and practices that address the financial health of their clients. Improving FSPs' financial performance, competitive position, and client base are also important. Therefore, it is crucial to develop business strategies that address clients' financial health and provide FSPs with growth, organisational resilience, and profitability (Gutman, 2018).

[1] The primary goal of financial inclusion (FI) has been to provide access to and use of responsibly designed, appropriate and affordable financial products and services that meet individuals' needs and their life cycle events. These include savings, credit, insurance, payments, money transfer and transactions (ADA, 2022; World Bank, 2022).

[2] A state in which a person is in control of her finances; can fully meet current and ongoing financial obligations; can feel secure to absorb financial shocks, in a way that enables her to be resilient; can feel secure in her financial future; has the freedom to make financial choices; and can pursue and take opportunities over time (Castellani, et all, 2023).

[3] FSD Kenya developed the multi-dimensional financial health index (MFHI) - an experimental measure to gauge the financial health of adults using the nationally representative FinAccess survey. The MFHI uses a set of nine indicators derived from several of the questions in FinAccess and combines those indicators into an overall index using an aggregation methodology derived from Oxford's multi-dimensional poverty index (see https://www.fsdkenya.org/financial-health/financial-health/).

The e-MFP "From Research to Practice and Back Again' Action Group" (AG) has worked on building a bridge between financial education and financial health and engaged with different stakeholders worldwide[4] to understand this relationship. In this process, it identified an opportunity to make financial health a business proposition for FSPs that can adopt and implement strategies to improve the financial health of their clients, become more resilient and profitable, and develop more robust internal and external relationships. This research question – how to frame the approach to develop and work on business strategies that address clients' financial health and provide FSPs with a way for growth, organisational resilience, and profitability – is the common thread of this effort. A literature review was conducted, pulling relevant insights from grey and academic literature. Key stakeholders were then identified to conduct consultations and interviews. During the evidence review and mapping exercise, the need for intentional efforts to identify stakeholders in low and middle-income countries was flagged early and addressed in the research approach. Key informant interviews were conducted with experts identified through recommendations (snowballing) and through prior interactions with e-MFP members. Initially, a conceptual framework of Financial Health was developed concomitantly with the development of the framework through which FSPs operate – encompassing their different bottom lines, performance indicators (including ESG) and where financial health could be integrated. The two frameworks were then merged into the theoretical framework presented below. Finally, an extensive consultation and peer-review process was conducted to gather feedback, improve, and validate this framework. Further comments are most welcome.

The following sections present the AG's business case for financial health. They cover a comprehensive theoretical framework and offer actionable steps to assist FSPs in adopting a proactive approach to support their clients' financial health.

[4] Financial Health Network, Financial Sector Deepening (FSD) Kenya, United Nations Capital Development Fund (UNCDF); Opportunity International, MicroSave Consulting (MSC), Organisation for Economic Co-operation and Development (OECD), FinnSalud- Bankable Frontier Associates (BFA) Global, SOLLIV, Center for Financial Inclusion (CFI) at ACCION.

FINANCIAL HEALTH IN THE FINANCIAL SERVICES SECTOR: BEYOND INCOME TO WELLBEING

Financial Health is emerging as an area of focus for the financial services industry, with attention shifting from the sole usage of financial services to the well-being of those who use them (Rhyne, 2020). This evolution is similar to an earlier transition the industry has experienced, from a vision centred on access to financial services to acknowledging the necessary role of actual usage. Financial Health is also a key point of a recent narrative developing on clients' outcomes (CGAP, 2022), which focuses on the goals individuals set for themselves and the many ways financial services can help realise these goals and impact their financial health and lives more generally (CGAP, 2020).

National-level investigations have revealed a robust association between financial health and high-income levels. However, such a relationship is not always linear. In the United States, for instance, research by the Financial Health Network (using data from the U.S. Financial Health Pulse) revealed the presence of individuals with suboptimal financial well-being among those with moderate and high incomes. Unexpectedly, some individuals had commendable financial health at lower income levels. The Consumer Financial Protection Bureau's 2015 survey also found that one-third of the U.S. population is likely to struggle financially. However, recent findings suggest that while income is important, looking at financial health provides deeper insights (Rhyne, 2020).

In the context of the developing world, studies indicate that while financial well-being may fluctuate with income, income alone does not comprehensively account for the observed variations at national and individual levels. Although financial health was introduced as an intermediary outcome of financial inclusion on the path to poverty reduction, existing data on whether financial inclusion leads to greater financial health remain inconclusive. Kenya's FinAccess surveys showed a drop in financially healthy adults from 2016 to 2019, despite more people accessing and using financial services. Thus, there is no straightforward connection between inclusion in the financial system and the financial well-being of clients using financial services. For example, the Global Findex 2021 shows that women and the poor are less likely to be financially resilient[5] than men and the wealthy client, providing further evidence that the relationship between financial inclusion and financial health is not linear. This puts into question the role FSPs' products and services play in clients' financial health.

[5] Financial Health Network, Financial Sector Deepening (FSD) Kenya, United Nations Capital Development Fund (UNCDF); Opportunity International, MicroSave Consulting (MSC), Organisation for Economic Co-operation and Development (OECD), FinnSalud- Bankable Frontier Associates (BFA) Global, SOLLIV, Center for Financial Inclusion (CFI) at ACCION.

DEFINING FINANCIAL HEALTH: KEY DIMENSIONS AND INFLUENCING FACTORS

Defining Financial Health or wellbeing is an important first step which would allow for their measurement and monitoring. Without defining and tracking clients' financial health, there is no prospect for improving it.

While there is no universally recognised definition, several key dimensions consistently appear in the existing models and literature definitions, centred on the ability to meet present financial needs and commitments and plan for the future, and the level of satisfaction experienced about one's financial situation (Kempson, 2017; Rhyne, 2020). Key dimensions include **financial security**, the ability to meet short-term commitments; **financial resilience**, the ability to cope with unexpected or adverse events; **financial control**, the confidence in one's current and future finances; and **financial freedom**, the ability to meet long-term financial goals and desires.

Financial health is an outcome, the result of the financial behaviours adopted by individuals. The significance of these behaviours is influenced by several external and exogenous factors and is also determined by the individuals' financial capabilities. Financial capabilities include financial knowledge and skills, as well as confidence in these financial knowledge and skills, access and the ability and confidence to use financial services, and the psychological traits and financial attitudes of an individual resulting from their experience. The economic, social, and cultural context plays a key role in this framework, affecting the financial capabilities of an individual, the decisions taken, the financial behaviours observed, and the assessment one makes of her/his financial situation.

BOX 1: EXAMPLE OF FINANCIAL HEALTH APPROACHES

OPPORTUNITY INTERNATIONAL (OI) employs a comprehensive approach to financial health that includes providing marginalised women with access to financial services. This encompasses Trust Group Loans that leverage social groups to use peer influence instead of collateral, mobile banking services, and agent banker networks. These networks enable rural women in Ghana, the DRC, Mozambique, India, and Malawi, among other countries, to conduct cash deposits or withdrawals with trusted local shop owners, eliminating the need to travel to the nearest branch. Additionally, biometric tools like fingerprint or iris scanners are utilised, allowing women to access their accounts without formal identification.

Alongside these innovative financial services, OI delivers a multi-dimensional literacy, technical skills development, and empowerment package. For microbusiness owners, OI helps them learn how to budget, invest their loans, and create a financial plan for sustainable growth. For women farmers, OI engages them, often for the first time, to teach them technical skills such as how and when to plant seeds, apply fertilizer, or set up an irrigation system. All women are trained in digital financial literacy and, in addition, in productive skills. OI also provides training in livelihood skills, such as health and wellness, leadership, and fostering strong relationships. Sensitisation activities regarding gender and social norms are also conducted at household-level with spouses and at community level.

In India, an impact study found that 89% of women who used a loan for their microbusiness reported up to a 66% increase in their income. And 98% of women reported increased well-being. 81% of female farmers in Ghana and Mozambique reported increased decision-making power, and 58% reported increasing income because of Opportunity's Agriculture Finance services.

FOSTERING FINANCIAL HEALTH: PROACTIVE STRATEGIES BY FINANCIAL SERVICE PROVIDERS

Financial health is characterised as being a clients' outcome resulting from financial behaviours performed by using formal and informal financial practices under the influence of external socio-economic and cultural factors. With the theoretical framework proposed in Figure 1 below, FSPs are adopting a proactive approach to supporting their clients' financial health.

Given that the ability and the confidence to use financial services is a key part of an individual's financial capabilities, and that the utilization of financial services lies at the heart of observed financial behaviours, it can be postulated that FSPs can play a role in fostering the financial health of their clients. While financial literacy is an important determinant of individuals' financial decisions and behaviours, unpacking financial capabilities can reveal additional avenues for FSPs to explore. This includes exploring the importance of financial confidence (Lind et al., 2020) and understanding the role of psychological behaviours in influencing financial decision-making (Kempson et al., 2017).

Access and usage of financial services allow individuals and businesses to borrow, invest, transact, and save. To contribute to clients' financial health, the fundamental functions of FSPs must align with their financial situation, current needs and obligations, and financial aspirations. This multi-dimensional understanding, particularly considering long-term financial aspirations, would push FSPs beyond the information traditionally gathered during the KYC and AML/CFT compliance processes. This could represent a shift for FSPs, especially those in low-income countries, where there is often more emphasis on access and onboarding than client retention and adopting a life-events approach to understanding their clients (Salignac et al., 2020).

With their active role in influencing financial capabilities and financial behaviours individually, FSPs can play a crucial role in aligning financial capabilities with financial behaviours and vice versa. Ensuring clients can safely utilise various financial products is already within the mandate of FSPs. Proactively aligning financial capabilities with financial behaviours presents an avenue for FSPs to enhance the financial health of their clients.

REVAMPING FINANCIAL SERVICES: BUILDING A BUSINESS CASE FOR CLIENT-CENTRICITY AND FINANCIAL HEALTH

This shift from current practice requires an institutional-level change in how the relationship between FSPs and clients is perceived. It entails a shift from the traditional business models of many FSPs relying on an increased number and volume of transactions leading to increased revenues and profits. It also calls for understanding and including the outcomes that clients derive from using financial services in the FSPs' business models. Ensuring the sustainability of this approach, however, raises legitimate questions about the benefits that FSPs can anticipate for their institutions.

An analysis of these potential benefits is presented in detail in the theoretical framework in the next section. For example, embracing a client-centric approach in designing, developing, and distributing financial services can result in a higher uptake of financial products and an expanding client base. This would additionally enhance the financial health of clients, creating a virtuous circle. This would empower clients to aspire to new goals and for that, they would seek new and tailored financial services. For FSPs, this would create enduring client relationships, opportunities to offer new products and services, and revenue-generating cross-selling opportunities.

Additional positive outcomes for FSPs include enhancing brand recognition and trust among potential and existing clients.

BOX 2: APPLYING A HCD APPROACH

The United Nations Capital Development Fund's (UNCDF) has developed **a Human-Centred Design (HCD) Toolkit for Remittances.** The toolkit consists of a website and field manual to support remittance and financial service providers (RSPs and FSPs) in creating human-centred digital remittances and remittance-linked financial services. This toolkit is specifically designed to help RSPs, FSPs, and other service providers in the remittance industry create migrant-centric and gender-responsive products and services. The HCD toolkit is informed by research conducted in 2022 with RSPs and FSPs in Singapore, Bangladesh, Senegal, and the United Arab Emirates.

UNCDF identifies how financial service providers operating in the remittance sector will **likely reap significant savings later in the development and product release phases for remittances and remittance-linked financial services** when investing upfront in human-centred design, both in terms of time and resources. The benefits of adopting an HCD approach for service providers are multiple.

Time- and cost-efficiency during product development - A key principle of HCD is to work iteratively. HCD allows you to promptly test ideas, validate them with your clients and make the necessary changes early in the process, making it time- and cost-efficient. Since HCD takes less time to identify and fix problems early on, the process speeds up product development and reduces spending.

Increased client satisfaction and loyalty leading to greater revenues - A client-friendly product will attract more consumers. HCD helps foster client satisfaction and a range of subsequent chain events. Easy-to-use products typically result in client satisfaction and increased client retention. Return customers mean increased sales. In short, HCD leads to better products, bringing in more revenue.

Less time and money spent on providing client support - Organisations typically spend significant amounts of time and money creating training manuals, walkthroughs, and even live training events to familiarise end users with their products. Since HCD tends to produce better products that are more intuitive and efficient, they require less training. Consequently, investing in HCD reduces training and client support costs.

The theoretical framework organises this rationale and illustrates the successive sequence that enables the financial health of both clients and FSPs to thrive by integrating the clients' financial health into the practices of FSPs. It also suggests a roadmap for its implementation by FSPs.

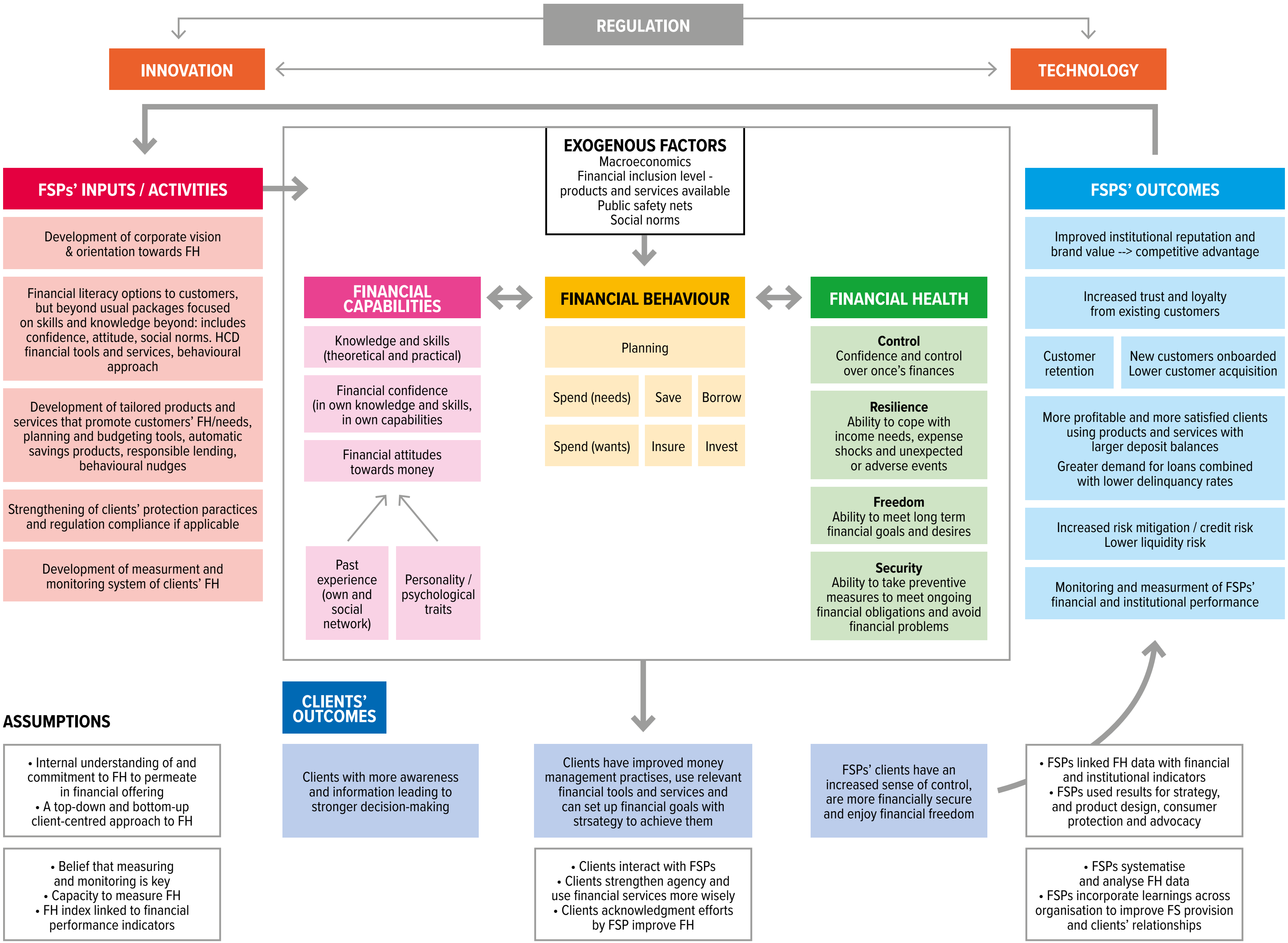
BUILDING A FRAMEWORK FOR FINANCIAL HEALTH

Our theoretical framework builds on the work done by other initiatives and financial health experts, including the Financial Health Network (FHN), FinnSalud programme - Bankable Frontier Associates (BFA) Global, Commonwealth Bank of Australia (CBA) – Melbourne Institute (MI), which contribute to making the case for FSPs to adopt a financial health framework and generate responsible and sustainable benefits over time. Our framework highlights the importance of clearly understanding what constitutes financial health. Consequently, the model places clients' financial health at the centre and elucidates the connections between FSPs' inputs and the outcomes for both clients and FSPs.

The framework presented in Figure 1 below displays the inputs and activities in which FSPs should invest to improve the financial health of their clients. However, as FSPs dedicate resources and invest in programmes, processes, products, and people, and implement financial health strategies across different areas of the organisation, the financial health of clients can also be influenced by external factors, which affect all the components of the framework, for FSPs and clients alike.

The core of the framework illustrates our conception of financial health. It encapsulates the outcomes of FSP interventions, the role of external factors, and individuals' own efforts to enhance their financial capabilities and behaviours. These factors collectively contribute to better financial control, resilience, freedom, and security. Clients' outcomes will follow with increased agency, confidence in positive financial decisions and a better capacity to achieve a fulfilling life. This also produces positive outcomes for FSPs, as displayed on Figure 1 right-hand side. FSPs' outcomes are critical in our framework as they connect with other endeavours and inputs such as client-led financial products and services, further enhancing financial health.

FIGURE 1: A THEORETICAL FRAMEWORK FOR BUILDING THE BUSINESS CASE FOR FINANCIAL HEALTH



FSPs' Path to Financial Health: Assumptions and Implementation Strategies

Our theoretical framework departs from an assumption that FSPs would develop an internal understanding of and commitment to financial health. This means the FSPs would integrate financial health into their vision and understand how to achieve positive outcomes. As the Financial Health Network states, it is "...a shift in corporate philosophy -- from being in the financial services business to being in the financial health business -- with the promise of returns for both clients and shareholders" (Gutman, 2018). The internal understanding may stem from evidence-based cases involving FSPs that have implemented strategies and actions to enhance the financial health of their clients and employees, subsequently leading to improvements in institutional performance indicators. The results of these pilot initiatives and the launch of further financial health-focused initiatives need to be monitored and disseminated. However, the number of cases is still limited; most are from high-income countries. For example, the Commonwealth Bank of Australia (CBA) partnered with the Melbourne Institute to develop financial health indexes, enabling financial health measurement. Additionally, the collaboration aimed to design behaviourally informed products and services and expedite the scaling of the resulting solutions. As a further example, PayPal supports employees' financial health to create a more productive and loyal workforce (UNSGSA, 2021). As more FSPs adopt a financial health approach and disclose their achievements, understanding and committing to financial health will become more manageable.

A second assumption is that the internal understanding of and commitment to financial health should be permeated into all levels of the organisation with a dual approach—both top-down and bottom-up—focusing on client-centred strategies in the financial and non-financial offerings of the FSP. This is a critical assumption of our theoretical model, as implementing financial health lenses in the FSP needs to be advocated by the top leadership and transmitted to the organisation's DNA. In this regard, the FHN has observed limited effectiveness when organisations implement financial health approaches without leadership commitment to integrating financial health into their mission, vision, and interventions, opting instead for a direct focus on financial products. It is crucial to align the financial health vision, take a strategic approach, and conduct a comprehensive assessment from the ground up to understand the current state of the FSP, identify necessary actions, and acquire the suitable skill set to integrate financial health throughout the entire organisation systematically. This approach ensures alignment in purpose and understanding across the organisation, fostering unity and direction among team members.

A third assumption refers to the FSP's emphasis on measuring and tracking clients' outcomes. Clients' data is crucial for FSPs to explore the correlation between financial health indicators and other institutional performance metrics. FSPs already 'sit on' rich client socio-economic and transactional data. This wealth of data is a solid foundation for measuring client financial health, offering a cost-effective and streamlined approach. This enables FSPs to assess the impact of their inputs and activities, providing valuable insights for decision-making and facilitating improvements in their financial health investments.

BOX 3: FINANCIAL HEALTH INDEXES

There are various cases of institutions and initiatives developing indexes and measuring financial health. The following examples provide a summary of their approach. For more details, please refer to Annex 1.

FinnSalud BFA is an index made up of 12 questions that provides a broad overview of the clients' financial situation and reflects four aspects of their financial health: day-to-day management, opportunities, resilience, and agency.

CBA-MI Reported Financial Wellbeing Scale is formed from people's responses to 10 questions that ask about their perceptions and experiences of financial health outcomes. It combines people's own perceptions about financial outcomes alongside banking data to show the drivers, barriers and behaviours linked to positive financial health.

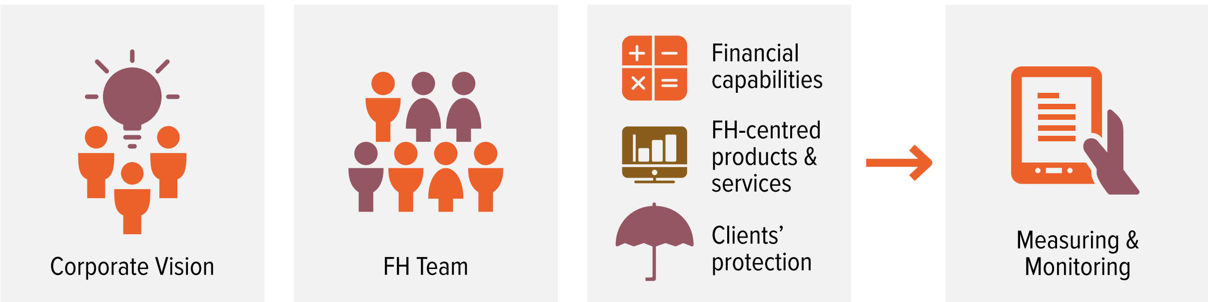
FHN's FinHealth Scores assess whether people are spending, saving, borrowing, and planning in ways that will enable them to be resilient and pursue opportunities. The FinHealth Score is based on eight survey questions that align with the eight indicators of financial health.

Integrating Financial Health: FSPs' Inputs and Strategic Implementation

The first step for FSPs is to develop a corporate vision and orientation towards financial health. As discussed above, the organisation's leadership needs to think of financial health as a sustainable growth strategy, a business driver that brings positive outcomes inside and outside the organisation. FSPs will recognise that by enhancing and supporting their clients' financial health, these individuals will become more valuable clients – through long-term retention and cross-selling opportunities - contributing to a stronger and more sustainable business for the FSPs. A corporate vision and approach to financial health by FSPs will facilitate effective interventions resulting in sustainable growth and a responsible growth strategy.

It also is necessary to dedicate resources with the primary objective of integrating the financial health vision throughout the organisation. This could be supported by a financial health team, who can facilitate the transition process towards building the institutional financial health vision. Providing support and advocacy for the development of a financial health approach and measuring progress can strengthen the model through a shared process of learning and innovation and ultimately feed into the corporate vision. The FHN has identified this as a missing link in several financial institutions adopting financial health.

FIGURE 2: FSPs' INPUTS FOR IMPLEMENTING A FINANCIAL HEALTH APPROACH



Our theoretical framework underscores the significance of implementing financial literacy initiatives by FSPs directly or in partnership with other organisations that enhance clients' skills and knowledge and consider social norms, financial behaviour (biases, changes), and different needs across population segments (gender, economic activity, location). This holistic approach aims to improve people's confidence and foster positive attitudes toward using financial services. Human-centred design approaches are generally effective in understanding the client's archetypes and life-cycle events. They help develop financial tools and services based on behavioural interactions.

Another central input is enhancing or adapting the existing product offering or developing tailored products and services both financial and non-financial that address clients' needs and promote their financial health. There are examples of planning and budgeting tools making important progress in people's financial health. For instance, CBA eliminated ATM fees, introduced digital reminders and alerts to help people stay ahead of their finances, and developed behaviourally informed money management solutions.

Additionally, third-party service providers assist FSPs in enhancing client behaviours and attitudes toward mainstream financial services, including automatic savings products, responsible loans, and interactions with chatbots, thereby enhancing their relationship with the FSP. For example, Personetics and Dreams Technology are digital platform services for FSPs that help increase client engagement by using behavioural science tools. Expanding services and increasing client interaction entails a stronger safeguarding and client protection responsibility.

A client-centred approach to financial health will also include sound client protection practices and strategies across the organisation, eventually leading to better client relationships. Clients' protection policies and practices can be accompanied by regulation and compliance in areas that promote the clients' financial health, such as debt capacity, know-your-client (KYC), digital onboarding, money laundering, terrorist financing, and transfer of funds, amongst others.

All these aspects should be captured in the financial health measurement and monitoring system of the FSP. A financial health index will help the FSP understand how actions and strategies contribute to improving financial health and their links to institutional performance. Measuring and monitoring clients' financial health should also be a source of learning and improving products and services as well as developing strategic partnerships and deepening business relationships with clients. For example, BFA's Finnsalud programme in Mexico, in collaboration with two credit and savings cooperatives, developed a metric that could be measured rapidly and cheaply at scale. Credit cooperative members could obtain a financial health score by answering twelve simple questions without the support of enumerators or representatives of the FSP. Similarly, BFA partnered with an FSP in Vietnam and tested a financial health index that included four dimensions: Day-to-day management, Opportunities, Resilience, and Agency (DORA). The financial health scorecard was implemented into the FSP's digital app, allowing clients to fill out the questionnaire in the app and get a single number back immediately.

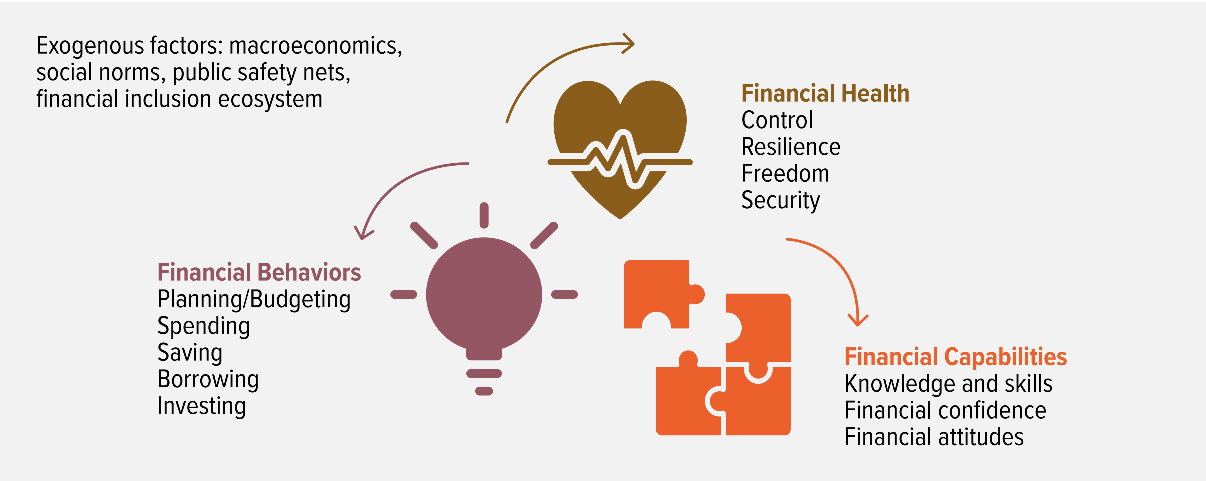
The effects of these initiatives on clients' financial health through its multiple dimensions (security, control, resilience, freedom) are not publicly available, and thus, remain to be evidenced.

Deciphering Financial Health: FSPs' Pathway in Understanding Their Clients

The core of our framework lies in our understanding of clients' financial health as an outcome, the result of a process that originates from the financial capabilities of an individual and how this translates into financial behaviours conducive to financial health (See Figure 3 below). Exploring what constitutes financial health is essential to understand where it originates from, its drivers and its components so that one can perceive what effects can be expected on clients' financial health.

We start from the assumption that clients can establish contact or interact with FSPs in different ways (e.g., in-person or digitally) through which they have access to FSPs and their products and services, including those dedicated to or featuring financial health proactively. This interaction allows clients to acknowledge the efforts of FSPs to improve their financial health. For example, if an FSP uses an app to help clients plan and save for future events, we assume that clients can access that information through personal electronic devices or other resources.

FIGURE 3: UNDERSTANDING FINANCIAL HEALTH



It is important to go beyond literacy packages that focus on skills and knowledge at the financial capacity level. It is key to include other dimensions that come into play for this knowledge and skills to be utilised effectively in decision-making. These dimensions include the financial confidence to choose which products and services to use and to do so, as well as one's particular set of attitudes towards money, shaped by psychological traits and past experiences (personal or of one's social network) that lead to decisions and actions. This can be achieved through dedicated efforts by FSPs to create a good client experience with FSPs debating and debunking social norms and including Human-Centred Design (HCD) financial tools and services in their product development strategy.

All these components affect the financial behaviour observed, particularly planning and budgeting. This is a core financial behaviour positioned over other financial functions (save, spend, borrow, invest, and insure), as those should result from intentional planning. An investment can mean savings (for example, ISA) or borrowing (to develop one's farm or company). At the financial health level, the focus is on managing one's money and meeting one's present and future needs with a sense of security/resilience, and on setting goals and having choices. FSPs play a role in developing a sense of financial security, control, and freedom for their clients, as well as providing ways in which clients become more resilient. Financial capabilities, financial behaviours, and the ensuing financial health are also influenced by external factors, such as macroeconomics (inflation and unemployment), the maturity of the financial sector and available financial products and services, the presence of public safety nets (health insurance, pension system), and prevailing social norms, including gender norms.

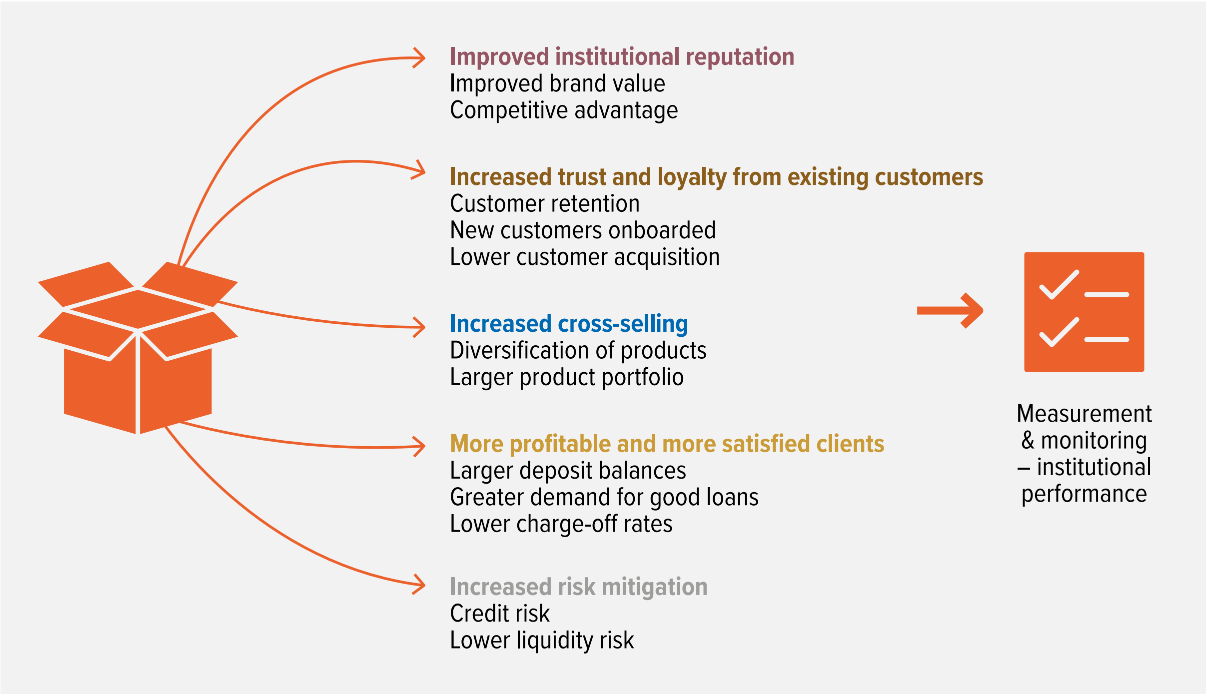
As mentioned earlier, FSPs can (and some already do) offer tools and services to support clients in setting up goals, saving toward them (e.g. automatic savings), budget planning tools, etc. As stated by the FHN, FSPs working with financial health-led products "help clients spend wisely, build savings, borrow responsibly, and plan for the future". This requires having a deeper understanding and knowledge of their clients beyond customary KYC requirements, and to have information on goals, etc.

The effects of these initiatives on clients' financial health need to be captured through specific indicators. They include financial and observable indicators, such as the amount and frequency of savings deposits, loan reimbursement and credit history, the number of occurrences and size of overdrafts, signalling difficulties in making ends meet, or poor financial management. Psychological or subjective indicators are also essential, including one's satisfaction with one's financial situation, one's sense of control over one's finances, assessment of one's ability to sustain unforeseen challenging circumstances, and one's sense of financial preparedness for the future. Such information can be gathered by running a survey among clients or conducting focus group discussions and individual interviews with a representative sample of client segments.

Unlocking Benefits: The Advantages of FSPs Adopting a Financial Health Approach in Financial Service Provision

When FSPs actively promote the financial health of their clients, they are more likely to be aware and informed about their financial services options and feel more confident about choosing a product or service that meets their current needs. FSPs concerned with the financial health of their clients provide tools and services that help them set up financial goals for future events. This means that clients have an increased sense of control, are more secure, and enjoy financial freedom in their lives. They are also aware of their FSP's efforts to improve their experience and financial health. The FHN found that FSPs that care about the financial health of their clients are more likely to experience positive loyalty and client satisfaction, and to be successful cross-selling other financial products.

FIGURE 4: FSPS' INSTITUTIONAL OUTCOMES FROM IMPLEMENTING A FINANCIAL HEALTH APPROACH



However, as illustrated in Figure 4, these benefits are more comprehensive and include:

- Improved institutional reputation; brand value can serve as a competitive advantage.
- Increased trust and loyalty from existing clients, which leads to more client retention and increased onboarding of new clients, reducing the cost of client acquisition.
- More profitable and satisfied clients.
- Larger and more stable deposit balances (i.e. lower liquidity risk).
- Greater demand for "good loans"[6] combined with lower Non Performing Loans (NPL) and charge-off rates, as a result of having lower-risk ("better") borrowers (i.e. lower credit risk).
- More cross-selling opportunities.

This means that FSPs that focus on their clients' financial health can also be more financially inclusive as they can offer more client-led products and services that address the needs of more people who otherwise they would not be able to serve. Therefore, they provide a pathway for economic mobility and stability.

The idea of implementing a financial health strategy within the FSP is aimed at creating a positive loop: extra revenues for FSPs are generated from investing to support clients' financial health, which leads to increased financial performance of the FSPs. The efforts deployed lead to improved client experience, which affects financial attitudes, all the way to improving the financial performance of FSPs.

[6] A term used in the US referring to loans given to people with the ability to repay.

Measuring FSPs’ Performance

An integral part of our theoretical model is monitoring and measuring outcomes. Financial health metrics are important, but they will be more valuable to FSPs if linked to institutional performance metrics. The choice of using specific metrics will depend on the resources and capacity of the FSP to measure the financial health of clients.

A good starting point is to look at what other institutions have done and explore if their approaches meet the FSP‘s needs. There is no blueprint for measuring financial health, but there are approaches that offer flexibility and adaptability to the different geographical contexts. For example, BFA Global has tested the DORA financial health index in Mexico and Vietnam adapting the indicators according to the participant FSP and contexts (see Annex 1 for examples of questionnaires and metrics). The Development Bank for Latin America and the Caribbean (CAF) is working and advocating the use of standardised financial health indicators based on the work by the Principles of Responsible Banking (PRB) Working Group on Financial Health and Inclusion of the UNEP FI (UN Environmental Programme Finance Initiative).

Product, programme, and institutional level metrics can be used to identify what profiles or segments of clients use different products or services and how they do it. Financial product transactional data and other types of client data, such as retention rates, repayment rates, and client acquisition costs, are important to build metrics from information often already available in the FSPs, which can be related to financial health metrics. Measuring and disaggregating client data by segment is important to delve into features that drive increases or decreases in their financial health. Adapting institutional performance indicators to the country, market, FSP type, and clientele will be instrumental, especially in developing countries. The examples provided are used market-wide but may be too limited, especially in some low-income countries where access to and usage of financial services are gradually increasing.

In this way, any progress made in clients’ financial health will be reflected in business outcomes. This will provide important learning and data for improving FSPs’ interventions and strategies. Furthermore, measuring allows FSPs to identify clients’ struggles and develop innovative solutions that address their needs and challenges more strategically and holistically.

BOX 4: EXAMPLES OF INSTITUTIONAL PERFORMANCE INDICATORS

- Net Interest Income as percentage of the loan portfolio
- ROI (risk/inflation adjusted) (CBA)
- (Average) deposit balances (inflation adjusted) (FHN)
- (Average) outstanding loan balance
- Repayment rates (FHN)
- Number of active customers
- Customers’ retention rate
- NPS (Net Promoter Score) (CBA)
- Lower cost of client acquisition (BFA)

FINAL REMARKS

Mainstreaming financial health among FSPs requires an ecosystem-based approach. In addition to the financial sector - encompassing Banks, FSPs, MFIs and Fintech, the support from the innovation community (innovation labs, accelerators, incubators), industry associations (banking, microfinance, consumer, etc.), and social economy actors (NGOs, etc.), as well as the encouragement and guidance from regulators and policymakers will be instrumental in incentivising FSPs to consider and prioritise the financial health of their clients.

There is an opportunity to strengthen this work with the virtues of cost-benefit analysis. FSPs might logically question how much it would cost to implement a financial health strategy and what benefits the institution might enjoy by embarking on such a strategy. The answer to this question is beyond the scope of this study and it will be highly dependent on the country, type of institution, segment of the market served, and other specific variables related to the FSP context.

During the validation process of the framework proposed with experts, it was evident the interest in providing more evidence-based results of the model. This will be part of the 2024 activities of the e-MFP 'From Research to Practice and Back Again Action Group[7].

[7] If your organisation is interested in this work, please contact Joana Afonso (e-MFP AG coordinator) at jafonso@e-mfp.eu.

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ANNEX

EXAMPLES OF QUESTIONNAIRES DESIGNED TO CALCULATE AN INDIVIDUAL'S FINANCIAL HEALTH INDEX

	FinnSalud score BFA (2021)		CBA-MI index (CBI-MI, 2019)		FHN FinHealth Score (2018)
Day-to-day management	1. When I think about the money I need during a typical day, I usually have enough to cover essentials. 2. I can usually make my money last until the next time I receive income. 3. I have a budget or a plan that I use to guide monthly spending.	**Every Day (%)**	1. I have money left over at the end of the month. 2. My finances control my life. 3. Difficulty meeting necessary living expenses. 4. I feel on top of my day-to-day finances. 5. I can enjoy life because of the way I am managing my money. 6. I am comfortable with my current levels of spending relative to the funds I have coming in	**Spend**	1. Spend less than income. Q: On average, over the past 12 months, how would you describe your spending patterns? 2. Pay bills on time and in full. Q: Which of the following statements best describes how well you are keeping up with your bills and credit commitments?
Opportunities	4. Currently, I am on track to accomplish my financial goals. 5. Currently, I have set aside money to meet large, irregular expenses, such as an emergency. 6. My debt is manageable - I am able to pay off what I owe when it is due.	**Rainy Day (%)**	1. I could handle a major unexpected expense. 2. Giving a gift would put a strain on my finances for the month	**Save**	1. Have sufficient living expenses in liquid savings. Q: How many months of living expenses do you have in liquid account balances? Which comes closest to describing your saving habits? 2. Have sufficient long-term savings or assets. Q: How much do you have in long-term savings, assets, and investments (i.e. 401(k), IRA, pension plan, stocks, bonds, and other investments and assets)? When you think about saving money for the future, which of these timeframes is most important to you?
Resilience	7. I owe more than what all my assets are worth. 8. If I lost all my income and had to survive on what I have put aside, I would be able to pay for essentials for four weeks, without borrowing money or selling something. 9. In the last year, there has been at least one time when I went without medicine or medical treatment because I did not have the money for it. 10. I have insurance that is enough to protect my home, my belongings, and my family.	**One day (%)**	1. I am securing my financial future. 2. I am on track to have enough money to provide for my financial needs in the future	**Borrow**	1. Have a sustainable debt load. Q: How would you describe how much debt you have right now? How would you describe your payment experience with credit cards? 2. Have a prime credit score. Q: How would you rate your credit score?
Agency	11. I have a large degree of control over my current financial situation and expect to have the same in the future. 12. In the last one year, my financial situation has caused me stress.			**Plan**	1. Have appropriate insurance. Q: Does the main earner(s) in your household have life insurance? Do you have insurance to cover your assets and any potential shocks? 2. Plan ahead for expenses. Q: Do you have a budget, spending plan, or financial plan that, Do you have a plan to achieve your longer-term financial goals? Do you plan ahead to pay for large, irregular expenses?
	Scale from 1 to 5, where 1 is total disagreement, 3 is neither disagreement nor agreement, and 5 is total agreement. Convert the response to each question to a number from 1 to 5, ranging from the weakest to the strongest possible response to the question. Then the scores are fed through a function that creates a weighted average of the responses and rescales the results so that the average falls between zero and 10.		The Reported Financial Health Scale (version 1) is formed from people's responses to 10 questions that ask about their perceptions and experiences of financial health outcomes. Each question has 5 possible responses, with the worst outcomes assigned values of 0 and the best outcomes, values of 4. The score can be calculated by adding the responses to all 10 questions and multiplying the sum by 2.5.		The FinHealth Score consists of 3 steps: Step 1 includes a survey to ask clients or employees a set of questions. Step 2 conducts a scoring logic consisting of quickly calculate one FinHealth Score and four sub scores to assess each individual's spending, saving, borrowing, and planning behaviours. Then use the scores to determine if they're Financially Healthy, Coping, or Vulnerable. Finally, step 3 the FinHealth score offers comparisons with other people based on age, education, income, and other variables.

About the European Microfinance Platform (e-MFP)

The European Microfinance Platform (e-MFP) is the leading network of organisations and individuals active in the financial inclusion sector in developing countries. It numbers over 130 members from all geographic regions and specialisations of the microfinance community, including consultants & support service providers, investors, FSPs, multilateral & national development agencies, NGOs and researchers. Up to two billion people remain financially excluded. To address this, the Platform seeks to promote co-operation, dialogue and innovation among these diverse stakeholders working in developing countries. e-MFP fosters activities which increase global access to affordable, quality sustainable and inclusive financial services for the un(der)banked by driving knowledge-sharing, partnership development and innovation. The Platform achieves this through its numerous year-round expert Action Groups, the annual European Microfinance Week which attracts over 500 top stakeholders representing dozens of countries from the sector, the prestigious annual European Microfinance Award and its many and regular publications.

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