Eight Ways to Measure Financial Health

April 2016

Leading the Nation in Consumer Financial Health
8 Ways to Measure Financial Health

How Banks, Credit Unions, FinTech, and Non-Profits can Track Consumer Well-Being

In 2016, CFSI is releasing Financial Health Indicators that companies can use to understand their customers’ financial health.

Join us by reading the report and case studies, and following our “Financial Health Beta” group which will test and report back on the indicators via our newsletter.

Measure What Matters
Adopt these 8 indicators of financial health

MetLife Foundation is a major sponsor of CFSI's ongoing consumer financial health work.
Partner with us to become a recognized champion of consumer financial health.

Subscribe to our email alerts for breaking research & news you need to know. Go to cfsinnovation.com and click the button. It’s simple.

Join our Network to help shape the industry.

Work with our consultants to apply deep consumer insights to your business needs.
What’s the Value of Measuring Financial Health?
Most Americans are struggling financially.

CFSI research shows that 57% of the country, that’s 138 million people, lack financial health.
Financial health comes about when your daily systems help you build resilience and pursue opportunities.
But how do Americans know if their financial systems are building towards financial resilience and opportunities?

How do providers know if their products are making a difference?

By measuring financial health.
Both providers and consumers benefit from measuring financial health.

Providers can identify which products are moving the needle for customers, and which aren’t.

They can identify profitable strategies to build consumer financial health.

Consumers can gain a holistic understanding of their financial health, rather than piecemeal measures like the credit score or account balances.
What’s measured is what matters

CFSI invites you to join us on this journey. 138 million Americans are waiting.
Four Components of Financial Health

Spend, Save, Borrow, Plan
Components of Financial Health

The 4 components of financial health mirror your daily financial activities. What you do today in terms of spending, saving, borrowing and planning greatly impacts your resilience and ability to pursue opportunities.
You are financially healthy when you...

**SPEND**
1. Spend less than income
2. Pay bills on time and in full

**SAVE**
3. Have sufficient liquid savings
4. Have sufficient long-term savings or assets

**BORROW**
5. Have a sustainable debt load
6. Have a prime credit score

**PLAN**
7. Have appropriate insurance
8. Plan ahead for expenses
Data used to Measure Consumer Financial Health

How do you measure?

**SPEND**
1. Difference between income and expenses
2. Percent of bills that are paid on time and in full

**SAVE**
3. Number of months of living expenses in liquid account balances
4. Amount of one’s long-term savings, assets, and investments

**BORROW**
5. Debt-to-income ratio
6. Credit score or credit quality tier

**PLAN**
7. Type and extent of insurance coverage
8. Behaviors that demonstrate future financial orientation
Eight Financial Health Indicators
An individual’s ability to successfully manage their cash flow and spend less than their income directly affects their ability to build savings and be resilient in the face of unexpected events.

**Spend less than income**
Difference between income and expenses

**Pay bills on time and in full**
Percent of bills that are paid on time and in full

**Benchmarks**

- **Green**: Expenses < Income
- **Yellow**: Expenses = Income
- **Red**: Expenses > Income
Proxies

- Observing increasing or decreasing balances in transaction accounts
- Velocity of inbound and outbound dollars may also shed light on whether income matches or exceeds expenses

Measurement challenges

- Consumers might have multiple core accounts
- It may be difficult to discern income and expenses from transfers between accounts
- With a lot of noisy transactions coming into and out of accounts, it may be difficult to know how to categorize all transactions
Why this indicator?

How well individuals are keeping up with their bill payments sheds light on how well they are able to manage their cash flow and day-to-day financial commitments.

Spend less than income
Difference between income and expenses

Pay bills on time and in full
Percent of bills that are paid on time and in full

Benchmarks

Green
All bills are paid on time and/or in full

Yellow
Occasionally only low priority bills are not paid on time and/or in full

Red
Consistently high priority bills are not paid on time and/or in full
Proxies

- A good proxy for timeliness of bill payments is whether someone has paid any late fees as observed in account transactions.

Measurement challenges

- Financial institutions may not have a complete picture of when bills are due and the total amount of the bill due.
**Have sufficient liquid savings**
Number of months of living expenses in liquid account balances

**Have sufficient long-term savings or assets**
Amount of one’s long-term savings, assets, and investments

**Why this indicator?**

Having sufficient liquid savings is important for coping with an unexpected expense, like a car repair, or a sudden drop in income, like losing a family member or getting laid off from a job.

**Benchmarks**

- **Green**: 6 or more months of living expenses
- **Yellow**: 1-5 months of living expenses
- **Red**: Less than 1 month of living expenses
Proxies

- One’s overall savings behavior is important
- Automatic deposits or electronic transfers help to put money away automatically for future use
- Consumers may also “save up and then spend down” referring to the behavior of building up a savings cushions which is then used for an unexpected shock or planned expense

Measurement challenges

- It may be difficult to account for total household accounts and expenses, and may be necessary to account for money held in informal locations and support from social networks
- Defining what “living expenses” are may vary given changes in household composition and other circumstances
Why this indicator?

Having sufficient long-term savings is necessary to achieve financial security and take advantage of opportunities, such as investing in a home or a child’s education.

Benchmarks

**Green**
Sufficient funds to cover retirement, plus adequate funds to take advantage of future opportunities.

**Yellow**
Sufficient funds to cover retirement.

**Red**
Insufficient funds to cover retirement.

Note: Sufficient funds is considered a 70% income replacement rate.
Proxies

- Analyze not only current retirement account balances, but current contribution rates, investment accounts designated for retirement, and future social security benefit payments
- Automatic deposits or electronic transfers help to put money away automatically for future use

Measurement challenges

- It will be difficult for one provider to get a full picture of a customer’s long-term savings
- Financial institutions may have a limited view of inheritances or the contributions of others to one’s long-term goals

Have sufficient liquid savings
Number of months of living expenses in liquid account balances

Have sufficient long-term savings or assets
Amount of one’s long-term savings, assets, and investments
**Why this indicator?**

Having a manageable debt load suggests that individuals will not be consumed by late fees or become over-indebted which may lead to further financial difficulties, including bankruptcy.

**Borrow**

**Have a sustainable debt load**
Debt-to-Income Ratio

**Have a prime credit score**
Credit score or credit quality tier

**Benchmarks**

**Green**  Less than 36%
**Yellow**  36%-43%
**Red**     More than 43%

Note: With no more than 28% going towards servicing one’s mortgage.
Proxies

Credit card behavior is a proxy for many other financial behaviors. Consider a proxy that looks at credit card payment behavior.

Green: Pays credit cards in full and on time
Yellow: Pays more than the minimum payment but carries over a balance and pays interest
Red: Makes only the minimum payment, carrying a balance and paying interest

Measurement challenges

• Financial institutions may not have a complete view of an individual’s debt and income
• It may be difficult to discern income and debt payments from among other transactions in accounts
Why this indicator?

Although credit scores are an imperfect indicator of overall financial health, they shed light on an individual’s ability to access low-cost credit and their propensity to pay it back.

Borrow

Have a sustainable debt load
Debt-to-Income Ratio

Have a prime credit score
Credit score or credit quality tier

Benchmarks

Green  Super prime, prime
Yellow  Nonprime
Red    Subprime, deep subprime
Proxies

- Payments to known debt service merchant accounts or late fees to creditors may signal delinquency
- The absence of any credit payments may signal that someone is unscoreable
- Payments to traditionally low-quality lenders (such as payday or auto title lenders) may signal poor credit and therefore a lack of other credit options

Measurement challenges

- Not all providers can pull a credit score without having a legitimate financial reason for the inquiry
Why this indicator?

Having appropriate insurance allows individuals to be resilient in the face of unexpected expenses, such as the death of a loved one or a medical emergency.

**Have appropriate insurance**
Type and extent of insurance coverage

**Plan ahead for expenses**
Behaviors that demonstrate future financial orientation

**Benchmarks**

**Green**  Main assets and potential shocks are fully covered

**Yellow**  Main assets and potential shocks are partially covered

**Red**    No insurance coverage

Note: Insurance that covers assets may include renters or homeowners and car insurance (as needed by individual consumers). Insurance that covers shocks may include life and disability insurance. Assumption is that all people have health insurance as required by the Affordable Care Act.
Measurement challenges

- The quality of insurance, both in terms and price, varies greatly. Even those with insurance may face high deductibles that result in high bills.
- Having a poor quality insurance policy may give people the false sense of protection.
- It may be difficult for financial institutions to know how many assets a customer has and, therefore, how much coverage is appropriate.

Proxies

There are no great options for financial data proxies for this indicator.

Plan Ahead for Expenses
Behaviors that demonstrate future financial orientation.

Have appropriate insurance
Type and extent of insurance coverage.
Why this indicator?

Planning ahead for expenses indicates that an individual is future-oriented and interested in improving their financial situation. In CFSI’s Consumer Financial Health Study, planning ahead behavior was highly correlated with financial health.

Benchmarks

Green  Exhibit many behaviors of future financial orientation
Yellow Exhibit some behaviors of future financial orientation
Red  Exhibit no behaviors of future financial orientation

Note: These benchmarks aim to understand the overall planning mentality of a consumer.
Proxies

- A customer’s engagement data with an account may be helpful to gauge their planning behavior
- Engagement data may include logging into accounts, visiting a branch, calling customer service, etc.

Measurement challenges

- This indicator may not be visible to most providers, and therefore difficult to measure without asking customers directly
- Simply using a budget or financial plan may not result in healthy financial transactions
- Many types of behaviors may demonstrate future financial orientation, but they may not all be equally effective
Partner with us to become a recognized champion of consumer financial health.

Subscribe to our email alerts for breaking research & news you need to know. Go to cfsinnovation.com and click the button. It’s simple.

Join our Network to help shape the industry.

Work with our consultants to apply deep consumer insights to your business needs.
Resources
And There’s More: A Report with Additional Details

Sign up for our “Research Alerts” newsletter and we’ll send it to you!
A Deeper Dive into 8 Indicators of Financial Health

In the full report for each indicator, we discuss:

- Benchmarks
- Why this indicator?
- Data to collect
- Potential data sources
- Financial data proxies
- Survey question alternatives
- Measurement challenges
- Customer variability
- Ways providers can help
3 Case Studies

**HelloWallet**
Innovative fintech provider offers financial wellness scores to consumers

**SfP/ Solutions for Progress**
Online platform integrates a financial health measurement scale into financial coaching to measure consumer outcomes

**Wells Fargo**
Top-tier bank provides customers with actionable financial health advice

Subscribe to our “Research Alert” newsletters!
In 2016, CFSI is convening pioneers in financial services to commit to measuring and improving consumers’ financial health. Participating companies will use CFSI’s financial health indicators and test-drive a beta version of a financial health score to assess their customers’ financial well-being.

**Phase 1: Data Collection and Reporting** (H2 2016)
Companies will report transactional and self-reported data on their customers.

**Phase 2: Analysis and Evaluation** (Q1 2017)
CFSI will analyze data collected from companies and calibrate the financial health score.

**Phase 3: Publish Results and Learnings** (Q2 2017)
CFSI will release learnings from this project and a revised financial health score.

MetLife Foundation is a major sponsor of CFSI's ongoing consumer financial health work.

Subscribe to our newsletter “Research Alerts” for more information.
• Over the course of 2015, the CFSI team analyzed and synthesized data and insights from industry research and benchmarks.

• The indicators were informed by robust data sets from more than 20 consumer finance studies and consultations with more than 85 financial services providers and influencers.

• These consultations informed the scope and direction of the indicators and provided critical feedback on multiple drafts of the indicators.

• A deeper analysis of CFSI’s Consumer Financial Health Study was conducted to help refine the indicators, to determine which indicators were proxies for others, and which indicators to prioritize.
Components
are fundamental categories of financial health

Indicators
within each component show a directional assessment of one’s financial health

Data Used to Measure
are the pieces of data that can be collected to quantify the indicators of financial health

 Benchmarks
are used to gauge progress over time for each indicator
• There is often fluid movement along the spectrum of financial health and strict cutoff measures may not exist. It is more relevant to show progress in the direction that we want to see consumers moving.

• We use three different colors to illustrate the direction of our benchmarks: green shows behaviors that will move someone in the direction of greater financial health; yellow shows behaviors that neither move someone significantly toward nor away from greater financial health; and red shows behaviors that will detract someone from the direction of greater financial health.

• We intend to refine these benchmarks to be more accurate and relevant as we work to build a financial health score. The benchmarks presented here are just a start.
In general, companies can collect data on their customers in two forms: financial data and survey data.

Each data type has benefits and limitations.

Financial data provides objective information about someone’s behavior, but is limited to the data that a provider has at its disposal.

Financial data may also not be as straightforward as one would think. Data can be easily miscalculated or inaccurately analyzed, leading to inaccurate conclusions.

Survey data may be easier to collect by surveying a provider’s customer base, but it may also be expensive or cumbersome to collect.

Self-reported data may or may not actually reflect true customer behavior, and it carries with it reporting biases of those that complete surveys.
• Our indicators are deliberately focused on objective behaviors and outcomes, either as analyzed by financial data or from self-reported survey data.

• Similarly important are subjective attitudes and perceptions about one’s financial health. Levels of stress, confidence, and satisfaction are critical inputs into the overall picture of one’s financial well-being.

• The CFPB’s recent financial well-being scale is a robust set of 10 questions that gauge one’s attitudes and perceptions towards financial security and financial freedom of choice.

• This scale is an excellent complement to our objective indicators.

• Please reference the CFPB’s scale here: www.consumerfinance.gov/financial-well-being/
• Measuring customer financial health is complicated by the fact that no two people are the same. Individuals have different financial goals and aspirations.

• Age and geography also matter. A 25-year old does not need as much retirement savings as a 65-year old, and somebody living in New York City will have higher living costs than somebody living in rural Missouri.

• To truly understand an individual’s financial health, providers should account for the unique factors of an individual’s life, such as their age, employment status, income level and income volatility, geography, and household composition, as well as goals and aspirations.
Thank You