

# Financial Health Scorecard

## **MFC Webinar Session**

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# Objectives

- introduce the concept of financial health
- present the scorecard for measuring financial health developed by MFC
- provide links to the tools and metrics for assessing financial health

# Concept

Financial health means that an individual's day-to-day financial system functions well and increases the likelihood of long-term financial resilience and opportunity.

- There are three dimensions of financial health:
  - day-to day management
  - resilience to weather up and down
  - long-term perspective

# Concept

The concept was developed by Center for Financial Services Innovation (CFSI) in the US to:

- provide financial services industry with insights into the financial lives of the population
- increase understanding of the interplay among indicators of financial health, consumers' use of a range of financial products and services, and consumers' attitudes and preferences.

# Concept

- In ECA, the concept was further adapted by Microfinance Centre (MFC) to the context of Europe and Central Asia

# Financial health dimensions

There are three dimensions of financial health:

## Day-to-Day Management

- In the short-term: balancing income and expenses, being able to generate income surpluses, to timely pay all bills and dues and to prudently manage the household budget

## Resilience to weather ups and downs

- It is important to have resilience and be able to absorb shocks, that is have a safety cushion and be insured.

## Long-term perspective

- In the long-term: having sufficient resources to finance personal development, the improvement of the quality of life and to save for the retirement.

# Financial health scorecard

- MFC has developed a tool for assessing financial health which can be used by financial institutions to work with their clients but also with the staff
- The tool can be used for self-assessment or be incorporated in the client assessment process

# Financial health scorecard

## SELF-ASSESSMENT OF FINANCIAL HEALTH



Please take a few minutes to answer the questions below to find out about the financial health of your family in three domains: day-to-day management, resilience to weather ups and downs and long-term perspective.

Check how many points you score and what it says about your financial well-being.

### DAY-TO-DAY MANAGEMENT

		100 points	75 points	50 points	25 points	0 points
1	Does your family usually have any money left at the end of the month after covering the living expenses?	<input type="radio"/> Over 30% of the income	<input type="radio"/> 21-30% of the income	<input type="radio"/> 11-20% of the income	<input type="radio"/> 10% or less of the income	<input type="radio"/> None at all
2	Does your family pay all the bills on time?	<input type="radio"/> Yes, all our bills are paid on time	<input type="radio"/> We are overdue for 1 month on at least one bill	<input type="radio"/> We are overdue for 2-3 months	<input type="radio"/> We are overdue for 4-6 months	<input type="radio"/> We are overdue for more than 6 months
3	Does your family plan the expenses on a regular basis?	<input type="radio"/> Yes, we plan all expenses, large and small.	<input type="radio"/> We plan only major expenses	<input type="radio"/> We plan but not every month	<input type="radio"/> We try to but in fact we plan very rarely	<input type="radio"/> No, we don't plan the expenses at all.
4	If your family plans the expenses, how closely do you follow it?	<input type="radio"/> We always stick to it and do not exceed the planned expenses.	-	<input type="radio"/> We try to stick to it but not always succeed.	-	<input type="radio"/> We don't plan the expenses.
5	How much in control of your financial matters do you feel?	<input type="radio"/> I feel fully in control of the financial matters of my family.	<input type="radio"/> I feel rather in control of the financial matters of my family	<input type="radio"/> Someone else in the family is responsible for the financial matters of the family	<input type="radio"/> I feel somewhat out of control of the financial matters of the family	<input type="radio"/> I feel completely out of control of the financial matters of the family.

NOW PLEASE ADD UP YOUR POINTS



# Financial health scorecard

## RESILIENCE TO WEATHER UPS AND DOWNS

		100 points	75 points	50 points	25 points	0 points
1	Does your family have enough savings to cover emergency expenses?	<input type="radio"/> We have savings equal to more than 6 monthly incomes	<input type="radio"/> We have savings equal to 4-6 monthly incomes	<input type="radio"/> We have savings equal to 1-3 monthly incomes	<input type="radio"/> We have savings equal to up to one monthly income	<input type="radio"/> No, we do not have any savings at all.
2	Would you be able to come up with 500 Euro if an unexpected need arose next week?	<input type="radio"/> Yes, I could use my savings.	<input type="radio"/> Yes, I could borrow from a family member or a friend.	<input type="radio"/> Yes, I could use the overdraft on my bank account or a credit card.	<input type="radio"/> Yes, I could take a quick loan from a financial institution.	<input type="radio"/> No, I would not be able to come up with 500 Euro next week.
3	If your family repays any credits to a financial institutions, how large are the monthly instalments?	<input type="radio"/> We currently do not have or our instalments are below 10% of our monthly income.	<input type="radio"/> Credit instalments are between 10% and 20% of our total income.	<input type="radio"/> Credit instalments are between 21% and 30% of our monthly income	<input type="radio"/> Credit instalments are between 31% and 40% of our monthly income.	<input type="radio"/> Credit instalments exceed 40% of our monthly income
4	Is the property (apartment or house) that you inhabit insured against damages?	<input type="radio"/> Yes, our apartment/house is insured	-	-	-	<input type="radio"/> No, our apartment/house is not insured
5	Does the main income earner in your family hold a life insurance?	<input type="radio"/> Yes, the life of the main income earner is insured	-	-	-	<input type="radio"/> No, the life of the main income earner is not insured

NOW PLEASE ADD UP YOUR POINTS

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## LONG-TERM PERSPECTIVE

		100 points	75 points	50 points	25 points	0 points
1	When you plan the finances of your family, which of the time perspectives is the most important for you?	<input type="radio"/> Several years	<input type="radio"/> One year	<input type="radio"/> Up to 6 months	<input type="radio"/> One month	<input type="radio"/> We don't plan our finances.
2	Do you save for retirement?	<input type="radio"/> Yes, we regularly save for the retirement.	-	<input type="radio"/> Yes, we save for retirement but irregularly.	-	<input type="radio"/> No, we don't save for retirement.
3	How confident do you feel that you will have enough money to live when retired?	<input type="radio"/> I am fully confident.	-	<input type="radio"/> I am somewhat confident.	-	<input type="radio"/> I am not confident at all.
4	What is the level of risk you would be willing to take when saving or investing?	<input type="radio"/> I would be willing to risk in order to get higher returns.	-	<input type="radio"/> I would be willing to take some risk but only to a limited extent.	-	<input type="radio"/> I would not be willing to take any risks.
5	Which of the following best describes your current debt position of your household?	<input type="radio"/> We do not have problems with timely debt repayment or we do not have any debts.	-	-	-	<input type="radio"/> We have too much debt right now and we have or may have difficulty paying it off

NOW PLEASE ADD UP YOUR POINTS

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NOW, PLEASE ADD THE POINTS: A+B+C THE TOTAL SCORE IN ALL THREE DOMAINS (A+B+C) IS:

# How does it work?

- 5 questions in each dimension
- Measurement scale from 0 to 100 with five categories
- Sub-scores calculated for each dimension plus the overall score

# Benefits

- **Clients:**
  - useful for assessing the overall financial condition of the client, not only his/her repayment capacity
  - guidance for the MFI on other areas of work with the client (counseling, education, referral to other service providers, etc)
  - guidance for the clients in identifying weak areas
- **Staff:**
  - useful for the MFI staff to raise awareness of their own deficiencies

# Questions for each dimension

## Dimension 1 – Day-to-Day Management

- Does your family usually have any money left at the end of the month after covering the living expenses?
- Does your family pay all the bills on time?
- Does your family plan the expenses on a regular basis?
- If your family plans the expenses, how closely do you follow it?
- How much in control of your financial matters do you feel?

# Questions for each dimension

## Dimension 1 – Day-to-Day Management

Does your family usually have any money left at the end of the month after covering the living expenses?	<b>You should be able to save more than 10% of the monthly income.</b>
Does your family pay all the bills on time?	<b>You should not be overdue for more than 1 month on any of the bills.</b>
Does your family plan the expenses on a regular basis?	<b>You should plan the expenses every month.</b>
If your family plans the expenses, how closely do you follow it?	<b>You should follow the spending plan as closely as possible and, if necessary, adjust it.</b>
How much in control of your financial matters do you feel?	<b>You should feel in control of the financial matters of the family.</b>

# Questions for each dimension

## Dimension 2 – Resilience

- Does your family have enough savings to cover emergency expenses?
- Would you be able to come up with 500 Euro if an unexpected need arose next week?
- If your family repays any credits to a financial institutions, how large are the monthly installments?
- Is the property (apartment or house) that you inhabit insured against damages?
- Does the main income earner in your family hold a life insurance?

# Questions for each dimension

## Dimension 2 – Resilience

Does your family have enough savings to cover emergency expenses?	<b>You should have savings equal to at least 3 monthly incomes of the household.</b>
Would you be able to come up with 500 Euro if an unexpected need arose next week?	<b>You should be able to raise 500 Euro either from your savings or borrow interest-free.</b>
If your family repays any credits to a financial institutions, how large are the monthly installments?	<b>Your monthly credit installments should not exceed 30% of your gross monthly income.</b>
Is the property (apartment or house) that you inhabit insured against damages?	<b>The apartment/house you inhabit should be insured.</b>
Does the main income earner in your family hold a life insurance?	<b>The life of the main income earner in your household should be insured.</b>

# Questions for each dimension

## Dimension 3 – Long-Term Perspective

- When you plan the finances of your family, which of the time perspectives is the most important for you?
- Do you save for retirement?
- How confident do you feel that you will have enough money to live when retired?
- What is the level of risk you would be willing to take when saving or investing?
- Which of the following best describes your current debt position of your household?
  - We do not have problems with timely debt repayment or we do not have any debts.
  - We have too much debt right now and we have or may have difficulty paying it off



# Questions for each dimension

## Dimension 3 – Long-Term Perspective

When you plan the finances of your family, which of the time perspectives is the most important for you?	<b>Your financial plans should be prepared with a one-year perspective.</b>
Do you save for retirement?	<b>You should save for retirement.</b>
How confident do you feel that you will have enough money to live when retired?	<b>You should feel confident of the sources of income when you reach the retirement age.</b>
What is the level of risk you would be willing to take when saving or investing?	<b>You would be willing to take some risk in order to get higher returns on savings or investments.</b>
Which of the following best describes your current debt position of your household?	<b>You should not feel burdened with debts.</b>

# Scores

## DAY-TO-DAY MANAGEMENT

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NOW PLEASE ADD UP YOUR POINTS

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# Scores

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# Scores

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NOW PLEASE ADD UP YOUR POINTS

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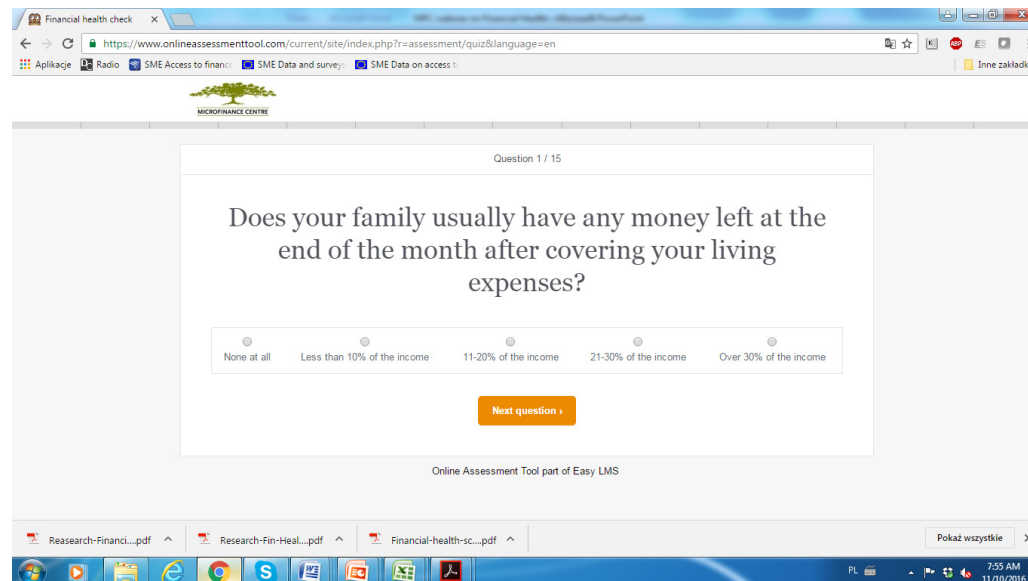
NOW, PLEASE ADD THE POINTS: A+B+C THE TOTAL SCORE IN ALL THREE DOMAINS (A+B+C) IS:

# Questions for each dimension

	Score	Description
<b>VULNERABLE</b> 	<b>0-500</b>	Your financial health is very weak.  You should score at least 250 points in each of the three domains.  Check in which of the domains you scored the lowest number of points.
<b>COPING</b> 	<b>501-1,000</b>	Your family is not yet fully healthy, you manage to cope with your finance but not in all aspects of it.  You should score at least 250 points in each of the three domains.  Check in which of the domains you scored the lowest number of points.
<b>HEALTHY</b> 	<b>1,001-1,500</b>	Your financial health is very good.  But check if you score equally well in all three domains.

# How to conduct the assessment?

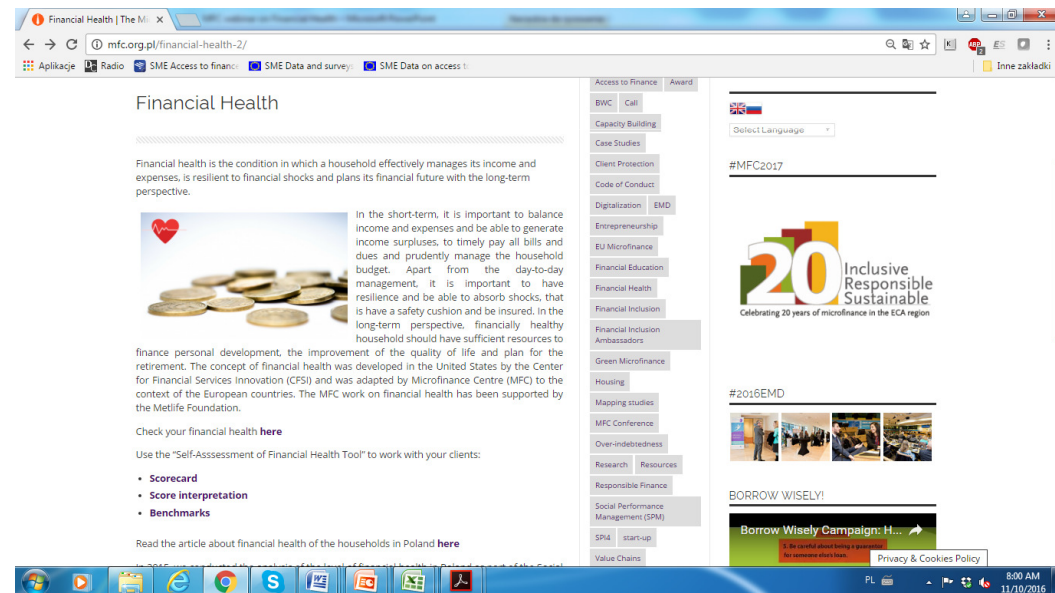
- Distribute paper copies of the questionnaire
- Use the on-line tool



# Resources

## Resources available at the MFC web site:

- [On-line self-assessment](#)
- [Scorecard](#)
- [Score interpretation](#)
- [Benchmarks](#)



<http://mfc.org.pl/financial-health-2/>



# Thank You!

**[www.mfc.org.pl](http://www.mfc.org.pl)**

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