

Toward a Financial Health Tool for Consumers

Test Results from Eastern Europe and Central Asia



April 2018

CENTER for
FINANCIAL
INCLUSION

ACCION

Brief 004

Toward a Financial Health Tool for Consumers

Test Results from Eastern Europe and Central Asia

Author

Elisabeth Rhyne

Center for Financial Inclusion at Accion

CENTER for
FINANCIAL
INCLUSION | ACCION

April 2018

Brief 004

Introduction

Around the world, people of all income levels strive to be financially healthy. Many need help to do so. The Center for Financial Inclusion at Accion (CFI) and the Microfinance Centre (MFC) are working together to build a financial health tool to assist customers with gauging and improving their financial health. We also intend this tool as a way for financial services providers to benchmark financial health, track progress, and work constructively with customers for their mutual benefit.

The Center for Financial Services Innovation (CFSI), which promotes the concept of financial health as applied in the United States, defines financial health around three broad goals: balanced daily systems, the ability to weather financial shocks, and the ability to pursue important future goals. Like physical health, financial health is a pursuit that continues throughout life. Through this process, people build healthy habits that support well-being and prepare them to be resilient even when inevitable shocks occur.

CFI and MFC are working together to adapt this financial health framework to serve as the foundation of a consumer-facing tool. We developed a simple financial health quiz and tested it among the clients and staff of organizations partnering with MFC. This brief describes the findings from the first iteration of the tool, which was tested in late 2017 with six financial institutions, two national associations, and three financial education organizations and trainers in Eastern Europe and Central Asia as part of the MFC's annual Borrow Wisely Campaign (See Annex 1).¹

Setting the Context

Prior Use of Financial Health by MFC and CFI

The financial health quiz that was tested has numerous antecedents, starting with the framework CFSI developed following extensive consumer research in the United States.² MFC adapted this framework slightly to take into account circumstances of the lower income customers their member organizations serve across Eastern Europe and Central Asia. At the same time, CFI and CFSI worked together to adapt the financial health framework for base-of-the-pyramid customers in the developing world, and CFI administered a variation of CFSI's framework as a questionnaire to Accion's employees.

As we worked with consumers in these varied circumstances, we were struck by the extent to which people from many walks of life think of financial health in similar terms, often using the same words and referencing the three pillars of financial health: day-to-day management, resilience, and achieving dreams. Moreover, financial health is important to people everywhere. Consumers desire to be financially healthy and they employ various strategies to manage their money effectively. Yet financial health is elusive and fraught with complications, especially considering economic circumstances and innate behavioral limitations that make it hard to achieve and maintain.

¹ This brief is based on work carried out by the Microfinance Centre in Warsaw, Poland. The author is merely the scribe. Thanks to the Borrow Wisely Campaign team and individuals from the Polish Partnership for Financial Education, and especially to the MFC staff members who compiled the results of the financial health quiz: Katarzyna Pawlak, Kinga Dabrowska, Ewa Bankowska and Justyna Pytkowska. Thanks also to Allyse McGrath and Sonja Kelly of the Center for Financial Inclusion at Accion for very helpful input.

² Parker, Sarah, et al. Eight Ways to Measure Financial Health. Center for Financial Services Innovation, 10 May 2016, cfsinnovation.org/research/eight-ways-to-measure-financial-health/.

We were also struck by the power of a simple set of questions – the financial health quiz – to provoke reflection among respondents, and to motivate them to improve their financial health. This catalytic power prompted us to pursue the financial health quiz as the foundation of an application (app) or digital tool aimed at lower income people that would help them not only to assess their financial health, but also to understand and decide on specific actions to improve it, and to monitor their success over time. Such an application could be a valuable tool for financial institutions to offer their clients, as it would generate important data on the financial health of their customers and align customers and institutions in joint efforts to improve.

Piloting a Digital Approach to Financial Health

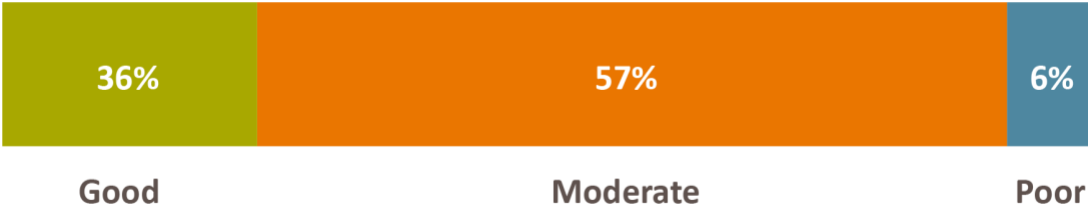
The first step in this process was to test the financial health quiz in a simple form (i.e., without follow-on interactive elements) with customers and their providers. The Borrow Wisely Campaign afforded an excellent opportunity to do this. Through Borrow Wisely, now in its fourth year, MFC provides materials each year that participating financial institutions distribute to their clients over a several week period to promote financial capability. In 2017, 26 institutions participated in Borrow Wisely, and six of these tested the financial health quiz with clients, and in some cases, with staff also. The quiz was administered in Albania, Armenia, Azerbaijan, Belarus, Romania and Serbia. MFC also tested it with three non-financial organizations in Poland, as well as a group of freelance trainers that provide financial education. In total, 587 responses were received. The quiz consisted of 15 questions with multiple choice responses. A scoring rubric was applied to their answers. After taking the quiz, respondents received their scores along with a series of action tips corresponding to each question. (See Annex 2 for the questions and scoring rubric.)

In this brief, after reporting on the results of the tests, we will review the comments collected about the experience, first from respondents and then from providers. These comments are especially relevant to the design of the application that is underway. The last section of the brief discusses lessons for the next steps in creation of an app.

Quiz Results

We scored the quiz on a 100-point scale (with all questions weighted equally), divided into “Good” (67 points and up), “Moderate” (34 to 66 points), and “Poor” (33 points or less). The average score was 60, with 36% (79 respondents) scoring in the good range, 52% (52 respondents) in the moderate range, and only 6% (23 respondents) in the poor range (see Table 1).

Table 1. Average Financial Health



Scores improved progressively by age of respondent, with only 22% of those below 30 years of age in the good range, going up to 34% of people in their 30s, 37% in their 40s, and 46% of the over 50 (see Table 2). Younger people scored worse in the dimensions of resilience and long term perspective. We have seen a similar increase in financial health over the life cycle in other instances of financial health testing. Staff scored higher than clients, but not dramatically better, reflecting the fact that microfinance institutions often draw staff from the same socioeconomic strata as their clients.

We also observed better financial health for those in smaller families, with only 25% of respondents with the largest families (over 5 members) scoring in the good range, while 51% of the one-person households were in that range. Those who use smartphones and Facebook had slightly higher scores than non-users.

There were significant differences in scores by country, with only 20% of Armenians scoring in the good range, while 70% of those in Belarus scored in that range. The country differences are not likely to be significant, however, because of differences in the population segments involved.

Table 2. Average Financial Health by Age

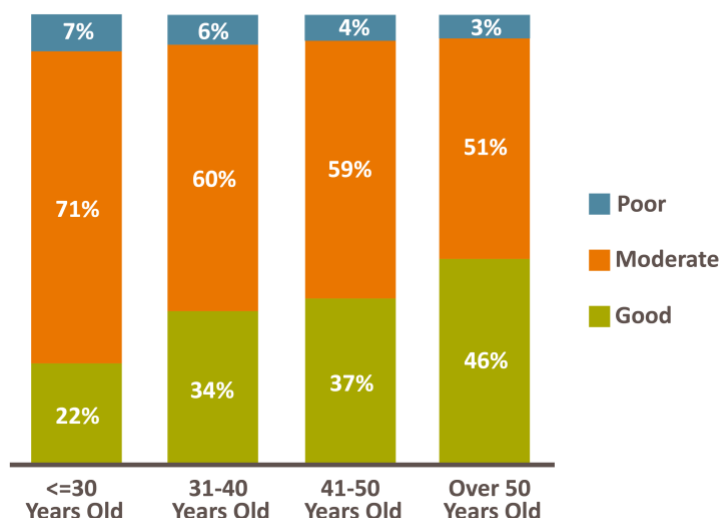
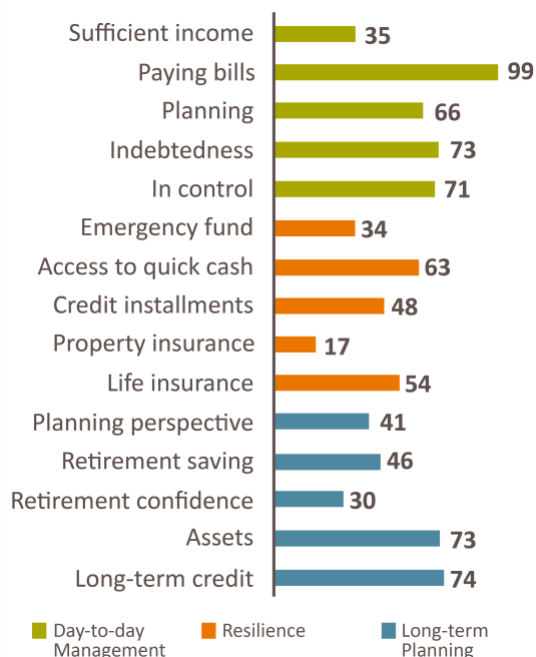


Table 3. Average Score per Question



The questions fell into the three main dimensions of financial health: day-to-day management, resilience and long-term planning (see Table 3). The results showed higher scores for short term money management than for either of the other two dimensions. Nearly all the respondents stated that they pay their bills on time, with almost no one admitting that they were behind on even one bill. The average score on planning was 66 – a level at which major expenses are planned, though sometimes the plan is not followed. Scores were quite strong on keeping debt manageable, though the average debt service reported was more than a quarter of average monthly income. Most respondents said that they feel in control of their finances. The main day-to-day weakness they noted was insufficient income to enable them to set aside some money each month.

Scores in the area of resilience were significantly lower. The question on property insurance returned the lowest score, with only 17% stating that they had such insurance.

Slightly more than half reported having life insurance coverage. In several instances, respondents noted that insurance products for this segment were not present in the market, so coverage was simply not an option. More surprising, however, were scores on emergency funds, which were low whether consumers kept the funds in the formal financial sector or informally. The average score for the question on savings for

emergencies was 34, indicating that the average respondent has savings of approximately one month's living expenses. Nevertheless, many families would be able to come up with emergency funds, if necessary, by borrowing from family, friends or a financial institution.

Looking at long term goals, respondents were fairly healthy in terms of housing assets and few had long term debts beyond five years. However, few people reported a planning perspective longer than one year. More than half of respondents either do not save for retirement or do so only irregularly, and confidence about having sufficient retirement assets was low. Indeed, savings behavior appeared to be limited in general, whether for short or longer term goals.

Consumer Perspectives and Implications for Design

We were pleased to learn that people responded favorably to the test. They enjoyed taking it, considering it to be fun and easy. At the same time, they commented that it was eye-opening and helped them reflect on their financial situation. The financial educators who tested the quiz in Poland observed that it notably increased motivation among their clients. The value customers found in taking the quiz was perhaps all the greater because, as they reported, they have few or no sources of financial management advice (beyond friends and family) and few or no tools, such as the personal financial assistants that are available in higher income markets or market segments.

Customers were most appreciative of concrete and practical advice, particularly with regard to short term money management. The tip to save the cost of five loaves of bread each month was especially popular. In contrast, quiz-takers found the tips related to long term planning too broad to be of much use. "I already know I should save for the long term, but I don't do it," was a frequent comment.

Instead of simply hearing what they "should" do in general terms, consumers want advice on "how" to do it. They also want help to prioritize among the many possible actions they could take. Our inclination after this round of testing is that the tool should prioritize short term money management and daily, weekly or monthly habits. However, short term money management is far from the only challenge on which the test-takers would like help. They also want to know how to plan in unstable economic conditions; they want a blueprint for steps to take when a financial crisis hits; and they want help setting and sticking to spending limits and reducing or consolidating debts. Several people wanted to know how to talk with their families and involve their children in good financial behavior. It may be possible to build advice and action modules around each of these challenges.

Consumers also expressed a desire for more tailored questions and advice. Several of the test questions were not well-suited to the rural dwellers whose irregular income does not come in as a monthly paycheck. Some consumers wanted questions more relevant for their stage in life. The planning horizon for the youngest group of people was very short, and (no surprise here) some seemed almost taken by surprise – and completely unprepared – to answer questions about retirement.

One important finding with implications for future product design is that consumers want to be informed about and comfortable with the treatment of their responses. They want assurance that the responses will be kept confidential, and that their answers will not affect how they are treated by their financial institutions.

Provider Perspectives

Providers were also happy with the quiz. They see it as a source of valuable information, and they would like to use the quiz and subsequent advice as a means to communicate with clients, both to receive feedback and to

keep clients informed. However, they are not necessarily interested in building deep, ongoing engagement with clients through the app. This may be because they see that as beyond their mandate (e.g., lenders may not be interested in engaging on activities unrelated to credit), or because they already engage directly with customers through loan officers and other staff.

As they consider the features that could be built into an app, providers are especially interested in those that solve their own problems or reduce burdens. For example, providers would be interested in having the app provide information to customers, such as account status, that could reduce the number of inquiries to which they would otherwise have to respond. They are also interested in functionality that would result in higher on-time loan repayment, whether immediate reminders about payment due dates or features that assist clients to control their expenses. They see the development of a digital tool as an opportunity to improve two-way communication with clients and a chance to learn more about clients needs and financial behavior in order to offer them better services. The financial providers also stressed the need for security – to make sure that information provided by clients is properly secured. Another important feature is to help clients start saving for emergency funds. Financial institutions see this as a way to help clients be less vulnerable to unplanned expenses, and, it is hoped, keep up with loan repayments.

One concern surfaced: providers wanted to make sure that the tool would be easy to use, so that their staff would not have to divert time to explaining the tool to clients. With loan officers and front-line staff already stretched thin, the tool must be intuitive for customers to use. Furthermore, as front-line staff will at least need to promote the tool in some way, distributing it to staff first could be a way of ensuring buy-in and promotion among customers.

Lessons for Developing a Customer-Centric Financial Health App

We have seen that motivation begins with the catalytic “aha moment” the quiz generates, but more is needed to generate actual behavior. The app will need to create paths leading from the “aha moment” to action, and it will need to reinforce the journey along the paths.

In this section, we will walk through the process from first contact through monitoring, describing the lessons seen at each stage.

1. Connecting with customers. The first question is how to connect with people so that they take the quiz. The results to date suggest that even though the vast majority of the target audience uses Facebook and Whatsapp and many use smartphones, digital promotion of the quiz is insufficient to encourage most people to take the quiz. Face-to-face or social promotion is needed. This of course has significant implications for the financial institutions who seek to implement the app.

2. Customizing the quiz. The quiz questions themselves need further refinement to resolve scoring and classification ambiguities, and to adjust the questions to the local market. For example, questions about insurance should not appear if there are no insurance products available. The possibility of a slightly different set of questions for self-employed people can also be considered. In an app, questions presented to a customer could automatically vary depending on answers to prior questions. The sequencing of questions needs to be thought through carefully.

3. Scores and immediate feedback. In the tested version, most people received a score in the moderate range – a result that may not inspire people to act. It may be more useful to emphasize concerns in specific dimensions of financial health rather than the overall score, so that scores immediately begin to direct attention toward priority actions. In the current version, each question is paired with a tip or rule of thumb that suggests an action a consumer can take to improve in the given area. While user feedback confirmed the value of such tips, if formulated in relatable ways (like “save the cost of five loaves of bread”), it is important to continue refining them and examining their role in creating pathways to action. Too many tips can leave people overwhelmed and paralyzed, especially if their financial health is poor. People who need to work on all areas will need advice on which behavior to tackle first. It will also be important to provide positive feedback so that people are encouraged to continue with what they are doing well.

4. Addressing consumer challenges. Feedback from respondents revealed several challenges that could be the topics for pathways to action in an app, keeping in mind that what people want is not to be told what they should do but how they can do it. Among the important challenges identified were:

- Controlling expenses: setting spending limits, budgeting, managing shopping behavior, resisting promotions
- Long term goals and saving: setting goals, reinforcing the saving habit, dealing with temptation and avoiding self-sabotage
- Managing debt, including prioritizing and consolidating debts
- What to do in a financial crisis
- Managing money when income is irregular
- Involving family in financial decisions and talking with children about money habits

We are envisioning that the app will include modules for each of these challenges and direct quiz-takers toward one or more of them based on their results.

5. Meeting consumers where they are. Design of a financial health app must take into account several practical issues that surfaced during testing. Despite the care put into the quiz to make it user-friendly, even basic financial terms were at times a barrier to consumer understanding. One example involved questions asking people to consider proportions or percentages (e.g., what percentage of your income do you...?). People in the target market are often uncomfortable computing or thinking in terms of percentages. Another example concerned the perception that the word for saving has the negative connotation of stinginess. Avoiding such cultural pitfalls requires feedback from target segments. It will be important to test designs with prospective consumers in an iterative fashion.

6. Creating pathways to action. We envision that the app will point customers toward one or more modules for improving their financial health, and that these modules will incorporate a range of features containing

Example Tips for Financial Health

These “tips” or rules of thumb are simple, memorable strategies that people can use to guide their financial decision-making.

- Do not go shopping hungry
- Only use cash for eating out
- Start Christmas shopping in September
- Pay your bills when you receive your salary
- Choose an additional day to use public transportation or walk instead of using your car
- When you get your tax refund, save at least 30% of it
- Put aside your change in a jar
- Create a shared family goal. Choose a way you can work together to reduce household bills to reach it.

advice and tools (such as worksheets or games). Ideally, the app will involve ongoing engagement with consumers over time and would be integrated in some way with the customer's account with the participating financial institution.

Users reported enjoying taking the test, and suggested that games and other quizzes would motivate ongoing engagement. Illustrative stories to guide behavior and provide memorable examples would also be useful. Specific tools could be incorporated into an app, such as a calculator to go along with the quiz, a loan payment calculator or a budgeting tool.

Users put forward a request for the ability to print out tips, tools and advice. For example, some quiz takers requested a calendar that would help them plan, budget or save. One can imagine the value of printing select rules of thumb and posting them in a prominent place in the house or having a calendar-based plan to write on. This is especially true because the target group generally has a somewhat lower comfort level with digital devices than higher income groups, and within the broad target group, some sub-groups may have different comfort levels.

One of the most important aspects would be features that assist users to maintain their behaviors through ongoing monitoring (especially including celebrating successes) and reminders. Feedback to consumers could come through SMS (text messages), interactive voice response or IVR, or within the app interface.

7. Relationship to host financial institution. Most relevant to this project, we envision the financial health app as a way for financial service providers to engage with their customers in support of improved customer engagement and value to the institution. Questions in this category include the use of data and the ability of the provider to offer customers additional products or special features based on their responses.

Most personal financial management tools in more developed countries are based on analysis of customer financial data including trends such as spending patterns or asset tracking. These methods are based on obtaining information on all aspects of a customer's financial life, as the customer makes data available from accounts at various financial service providers. A significant challenge to leveraging this approach to improve the financial health of lower-end market segments in Eastern Europe and Central Asia is that much or most of the customers' financial transactions may occur outside the formal financial system leaving little by way of data footprints. This challenge will limit the extent to which advice can be based on and personalized with data analysis, rather than broadly applicable rules of thumb. Some degree of personalization is highly desirable, even if it is relatively simple.

Another challenge involves flow of data between customer and financial institution. Institutions would like to analyze responses to the financial health questionnaire in the context of the customer's account activity with the institution. At the same time, customers are likely to be wary if they think their responses will influence how the financial institution treats them. Feedback from the testing showed that data confidentiality was a concern for quiz-takers. There may also be legal issues surrounding data collection and use, especially given the new data privacy laws now taking effect in Europe.

Regarding product design, the concept of financial health involves a holistic view of all facets of a person's financial life, which would be compatible with the offering of a suite of services, including credit, savings, insurance and payments. Most of the institutions in the test we have done to date, and indeed, most MFC member institutions, are credit-only providers. Thus, it is not immediately clear how they would be able to use the financial health app for cross-selling. There should, however, be opportunities to tailor loan renewal offers using the app or to assist customers with difficulty consolidating debt.

Annex 1. Participating Organizations

Azercredit (Azerbaijan)

FINCA Armenia

good.bee credit (Romania)

NOA (Albania)

Opportunity Bank (Serbia)

RMC (Belarus)

UCORA (Armenia)

Vitas Romania

[Rural Development Foundation](#) (Poland)

[Foundation for Innovation and Knowledge](#) (Poland)

[Citizens Advices Bureau](#) (Poland)

Annex 2. Questions and Scoring for the Financial Health Quiz

A) DAY-TO-DAY MANAGEMENT

	100 points	75 points	50 points	25 points	0 points
Does your family usually have any money left at the end of the month after covering the living expenses?	(30% of the average net monthly salary in the country)	(30% of the average net monthly salary in the country)	(20% of the average net monthly salary in the country)	(10% of the average net monthly salary in the country)	None at all
Does your family pay all the bills on time?	Yes, all our bills are paid on time.	We are overdue for 1 month on at least one bill.	We are overdue for 2-3 months.	We are overdue for 4-6 months.	We are overdue for more than 6 months.
Does your family plan the expenses and follow the plan on a regular basis?	Yes, we plan all expenses and spend money according to the plan.	We plan only major expenses and then follow the plan.	We plan all expenses but do not always follow the plan	We plan only major expenses and not always follow the plan.	No, we don't plan the expenses at all.
Add Your Points Here					
Total Points Section A					

B) RESILIENCE TO WEATHER UPS AND DOWNS

	100 points	75 points	50 points	25 points	0 points
Does your family have enough savings to cover emergency expenses?	We have savings equal to more than 6 monthly living expenses (including installment repayments)	We have savings equal to more than 6 monthly living expenses (including installment repayments)	We have savings equal to 1-3 monthly living expenses (including installment repayments)	We have savings equal to 4-6 monthly living expenses (including installment repayments)	No, we do not have any savings at all.
Would you be able to come up with [1/20 GNI per capita] if an	Yes, I could use my savings.	Yes, I could borrow from a family member or a friend.	Yes, I could use the overdraft on my bank account or a credit	Yes, I could take a bank/MFI loan from a financial institution.	No, I would not be able to come up with the money next week.

	100 points	75 points	50 points	25 points	0 points
unexpected need arose next week?			card.		Yes I could take a quick loan from an money lender/consumer loan company
If your family repays any credits to a financial institution, how large are the monthly instalments?	Credit installments are below a quarter of our average monthly income and we repay the installments on time.		Credit installments exceed a quarter of our average monthly income but we repay installments on time.	Credit installments are below a quarter of our average monthly income but we are overdue on the repayments.	Credit installments exceed a quarter of our average monthly income and we are overdue on the repayments.
	My household does not have any credits				
Is your apartment or house in which you live insured against damages?	Yes, our apartment/house is insured				No, the apartment/house we live in is not insured
	Not applicable - we live in rented apartment/house				
Does the main income earner in your family hold a life insurance?	Yes, the life of the main income earner is insured				No, the life of the main income earner is not insured
In case of the main income earners inability to work for a long time, what are the options related to income:	At least 2 of the following: many income earners, assts, extended family	We have several income earners in the household	We could liquidate some assets	Extended family could help us.	We cannot count on anything/anyone
Add Your Points Here					
Total Points Section B					

C) LONG TERM PERSPECTIVE

	100 points	75 points	50 points	25 points	0 points
Do you save for major expenses that you will have:	Over 5 years	over 1 year up to 5 years		in the next 12 months	Don't plan or plan up to one month
Do you save/invest for retirement (in addition to compulsory retirement payments)?	Yes, we regularly save/invest for the retirement.		Yes, we save/invest for retirement but irregularly.		No, we don't save/invest for retirement.
Do you have any of the following assets?	We are the owners of the house/apartment that we live in and other property such as houses/apartments for rent, plots of land, etc. Applies also to those with mortgage credit on the apartment	We only possess a house/apartment that we live in. Applies also to those with mortgage credit on the apartment	We have a plot of land but we don't own a house/apartment	Financial assets, gold, jewelry equivalent of 5 years of living expenses	No, we do not have any of the following assets
Does your household have any long-term credits?	We do not have any credits.	Yes, we have credit(s) which we will be repaying for no more than 5 years from now	Yes, we have credit(s) which we will be repaying 6-10 years from now	Yes, we have credit(s) which we will be repaying for 11-20 years from now	Yes, we have credit(s) which we will be repaying for more than 20 years from now
Add Your Points Here					
Total Points Section C					
Add Points from All Sections Here	Section A	Section B	Section C	Total Score	

The Center for Financial Inclusion at Accion would like to thank MetLife Foundation for supporting this work, a part of the Building Financial Capabilities and Strengthening Institutions through Digital Innovation project.



MetLife Foundation was created in 1976 to continue MetLife's long tradition of corporate contributions and community involvement. Since its founding through the end of 2017, MetLife Foundation has provided more than \$783 million in grants and \$70 million in program-related investments to organizations addressing issues that have a positive impact in their communities. In 2013, the Foundation committed \$200 million to financial inclusion, and our work to date has reached more than 3.5 million low-income individuals in 42 countries. To learn more about MetLife Foundation, visit metlife.org.

Project Partner



About the Building Financial Capabilities and Strengthening Institutions through Customer-Centered Innovations Project

The Building Financial Capabilities and Strengthening Institutions through Customer-Centered Innovations project aims to enhance financial customer engagement by building their capabilities. Regional efforts in Latin America, Eastern Europe, and Asia include designing digital tools and services informed by human-centered design; incorporating behavioral principles that spur usage and empower clients; and enabling financial service providers to effectively leverage and utilize client data for continuous improvement. The project is implemented by global nonprofit Accion, with support from MetLife Foundation.

About the Center for Financial Inclusion at Accion

The Center for Financial Inclusion at Accion (CFI) is an action-oriented think tank that engages and challenges the industry to better serve, protect, and empower clients. We develop insights, advocate on behalf of clients, and collaborate with stakeholders to achieve a comprehensive vision for financial inclusion. We are dedicated to enabling 3 billion people who are left out of – or poorly served by – the financial sector to improve their lives.

www.centerforfinancialinclusion.org

www.cfi-blog.org

@CFI_Accion

CENTER *for*
FINANCIAL
INCLUSION | **ACCION**