

FINANCIAL HEALTH : PRINCIPLES

1. Crucial to people's wellbeing
2. People, business and policy makers share responsibility
3. Context matters
4. Relationships are key
5. Unit of analysis: individuals, families, households
6. Objective and subjective: facts and feelings
7. Different meanings of empowerment for different people
8. An ever-changing process
9. Focus on outcomes is not enough: understanding 'how' matters
10. A broad definition works for our purpose

WE BELIEVE THAT ...

1. ... supporting financial health is **crucial to people's wellbeing**.
2. ... financial health is not only a behavioural **responsibility of people themselves**; responsibility for financial health also rest with **business and policy makers**.
 - ❖ People are encouraged to take actions to meet their life and financial goals.
 - ❖ Institutions have to act to support customers and consumers in improving their financial health.
3. ... **external factors** such as technology, culture, economic development, institutional settings, shocks, etc. can have an **impact on financial health**. Understanding and supporting people's financial health in their own **context is essential**.
4. ... people are **emotional and social beings**, and that **relationships** within the family and/or household play a **key role** in determining financial health.
5. ... the **unit of analysis** of financial health can therefore be the **individual** and or the **household/family** depending on the situation.
6. ... the emotions surrounding finance mean that **financial health** is a complex **combination of objective and subjective factors**. Therefore, financial health is not only about money issues *per se*, it also encompasses people's feelings of success, comfort and control, in relation to their ambitions, and their ways of experiencing and enjoying their lives.
7. ... our understanding of people's financial health needs to accommodate the **different ways in which they live their personal and financial lives**. We recognise people don't want or pursue the same objectives. Nor do people always wish or need to become financial experts to feel financially empowered. **Empowerment can have different meanings to different people** - from doing it all by themselves to freeing themselves by diverse forms of delegation.
8. ... financial health is not a static state for anyone, it is a **continuum and a dynamic process over time**. It is a universal problem not confined to specific income or wealth groups. In practice, financial health is a complex and often challenging journey for all.
9. ... supporting financial health is **not only** a matter of measuring financial health **outcomes**: it is crucial to understand **how** and **why** people get to certain outcomes at certain times to support them to make better decisions and to get to better outcomes.
10. ... there is no single or agreed definition of financial health despite the term being used by different groups. This **broad definition** builds on existing definitions and it is used to **guide our purpose** of promoting people's financial health.

FINANCIAL HEALTH: A DEFINITION*

Financial Health is the extent to which a person, household or family is able to and feels in control of:

- 1) meeting all current and ongoing financial commitments and needs comfortably; and
- 2) building the financial security to pursue their life goals and meet all future commitments and needs comfortably.



* This definition builds on existing work from CFPB (2015), FHN (2017), IFMR Finance (2011), Kempson et. al. (2017), OECD (2020), Vlaev and Elliott (2013), and others.

FINANCIAL HEALTH: FIVE CAPACITIES - SHAPED BY EMOTIONS AND RELATIONSHIPS

1

INCOME

achieving an income stream of sufficient size, regularity and predictability

2

SPENDING

aligning daily, occasional and big expenses with income and wealth over time

3

SAVING

putting aside enough money for the near and distant future, in the form of savings or investments

4

BORROWING

borrowing and repaying, considering quantity, frequency and purpose, in line with income and wealth

5

PLANNING

making and adjusting short and long term financial plans in line with life goals, track actions against plans, protect against potential financial loss

RELATIONSHIPS

- People's finances – and their goals, decisions and behaviours – are often intertwined in family or household relationships, even for those living alone. Each of these five capacities can also be interpreted as capacities developed jointly or interactively by the members of the household or family over time.
- Financial health therefore also reflects the degree of harmony in people's relationships, which directly influences their abilities and feelings of control about income, spending, saving, borrowing and planning.

FINANCIAL HEALTH : FIVE OUTCOMES - IN THE CONTEXT OF RELATIONSHIPS

1

INCOME

- Have sufficient income
- Be able to predict income over time
- Feel in control of future income generation

2

SPENDING

- Be able to make ends meet from income or wealth
- Pay bills on time and in full
- Feel in control of all types of spending

3

SAVING

- Save regularly and have sufficient liquid savings
- Have long-term savings and investments (including pensions)
- Feel in control of growing and/or managing wealth

4

BORROWING

- Have a sustainable debt load and repay debt on time
- Be eligible to borrow money if needed
- Be knowledgeable and feel in control of debt commitments

5

PLANNING

- Set and track short-term budgets and long-term plans in line with life goals
- Have appropriate insurance
- Have access to trustworthy sources of advice and support when needed
- Feel in control of financial planning in order to pursue life goals

Financial health improvement is a continuous process of being and feeling in control of:

- ✓ managing day-to-day finances;
- ✓ growing the capacity to absorb financial shocks and build wealth;
- ✓ pursuing short- and long-term goals; and
- ✓ developing the capabilities to make good financial choices for yourself and in harmony with your household and family.

Financial health improvement enables people to better enjoy life in general