



BBVA Research

Understanding financial health: beyond income

EduFin Summit

Buenos Aires, October 2018

Creating Opportunities

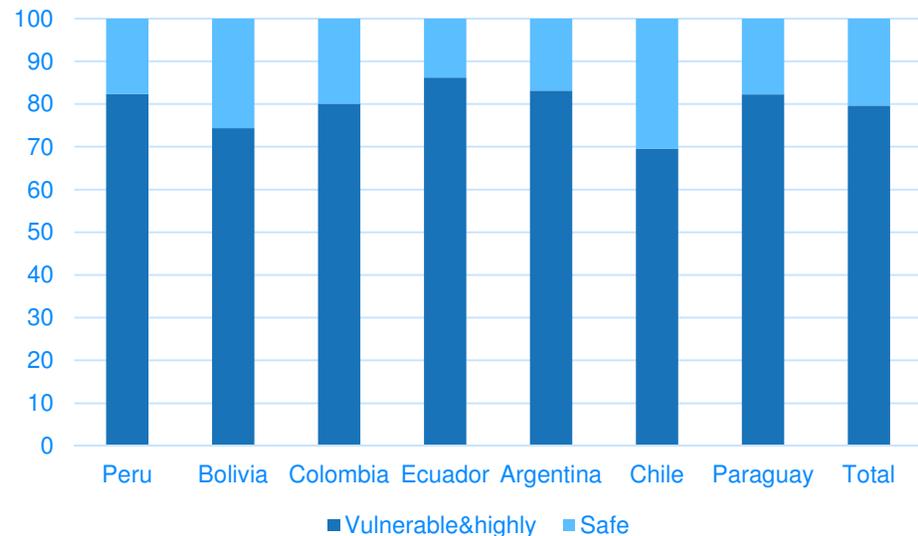
“If you lost your main source of household income, how long could your household continue to cover living expenses, without borrowing any money or moving house?”

- *Less than a week: **Highly vulnerable***
- *At least a week, but not three months: **Vulnerable***
- *More than three months: **Safe***

If you lost your main source of household income...

Financial Vulnerability in Latin American Households

- Based on the capacity that individuals have to deal with financial shocks relying solely on their own resources, we classify the population according to their degree of vulnerability
- We define vulnerability conforming to the length of time one is able to cover their costs of living in case they find themselves with no income

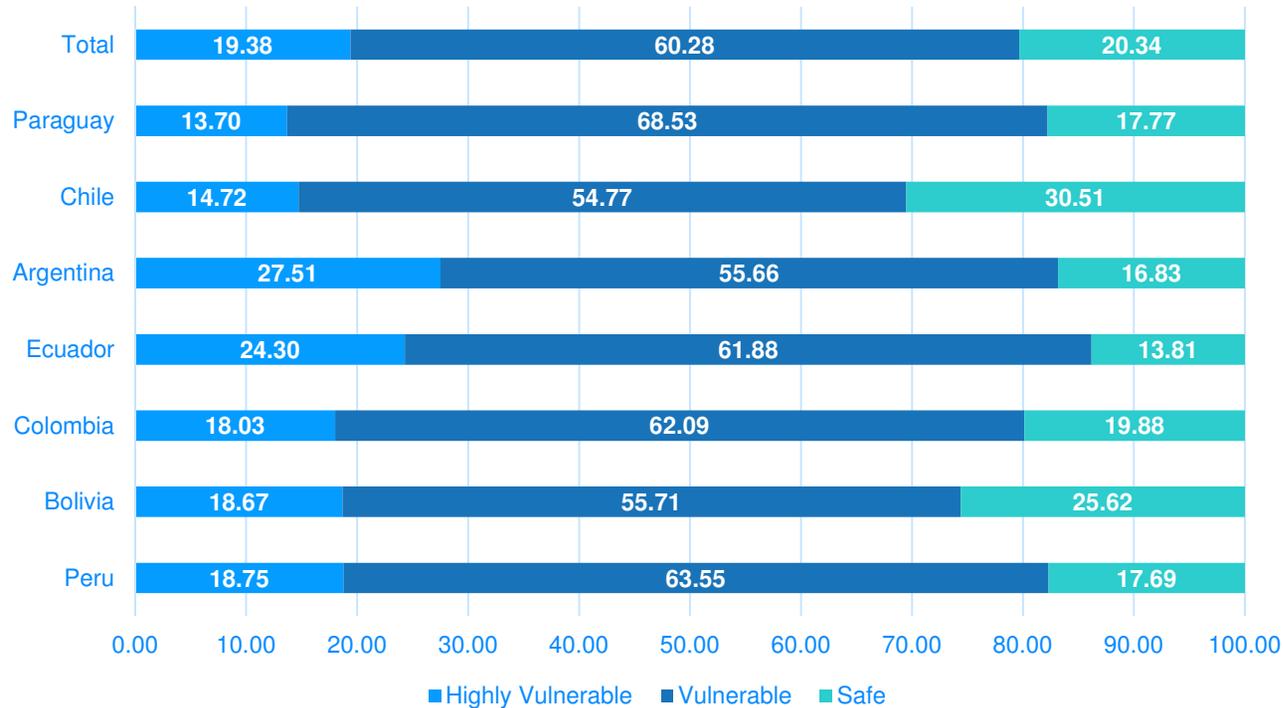


“If you lost your main source of household income, how long could your household continue to cover living expenses, without borrowing any money or moving house?”

Vulnerable&high: Less than three months. Safe: more than three months

The time span that individuals would cover their cost of living in case of losing their main source of income and without asking for a loan

Financial Vulnerability



We categorize individuals in three different groups according to their degree of financial vulnerability:

- **Highly vulnerable:** those that are able to cover their cost of living for **less than a week**
- **Vulnerable:** individuals that can cover the cost of living for **more than a week but less than three months**
- **Safe:** includes all those that can cover the cost of living for **more than three months**

On average, only 20.34% of households in our sample are financially safe



How to build financial resilience?

Financial inclusion can help: reaching more people and helping them to make better financial decisions

Vulnerability

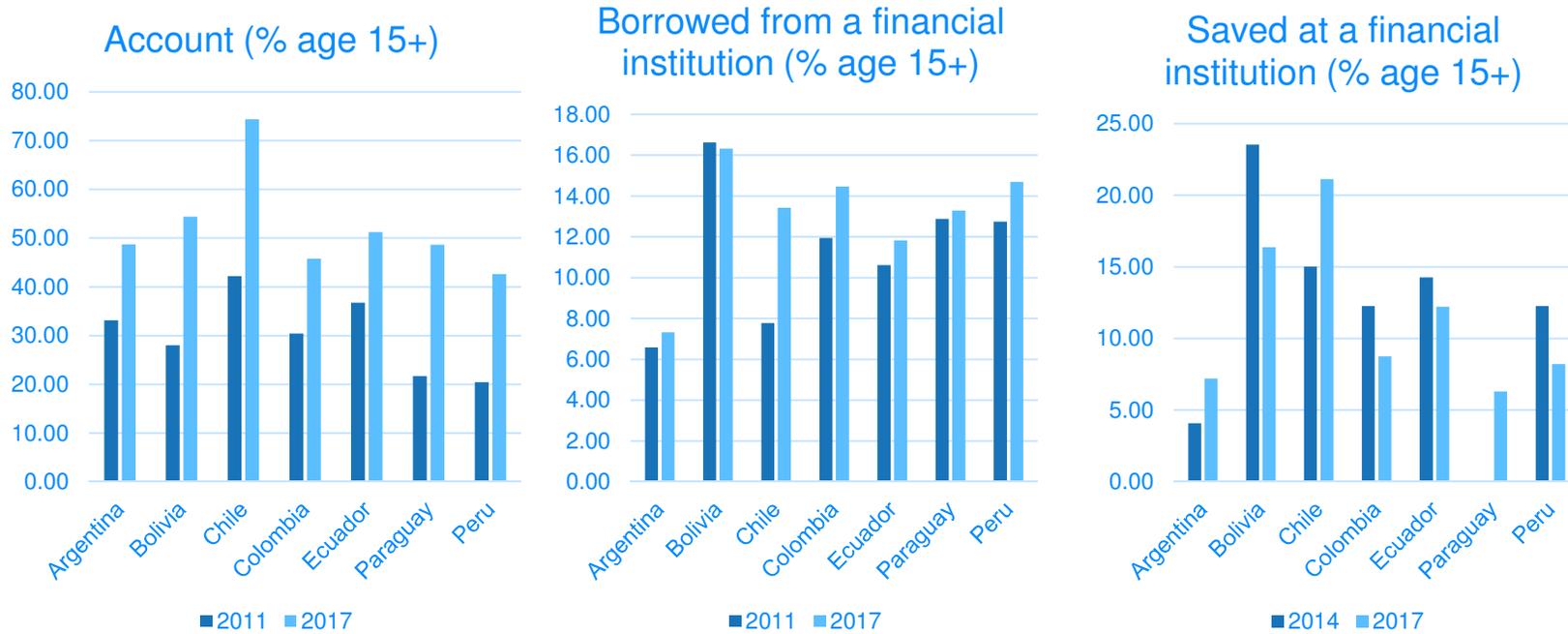
- Financial resilience is the capacity an individual has to endure life events that negatively impact his or her income or assets
- Financial resilience is key for consumer welfare and the formal financial system plays an important role in helping people build such resilience
- Understanding financial health is more than income: income and expense volatility, social network and the role of financial system
- People that are able to pay their bills, have savings lined up, are in a position to receive a loan, or have an insurance, will most likely rebound at a faster pace: they are financially resilient.
- Many individuals and households experience moments of financial difficulty, prompted either by a personal shock, such as losing a job, or an economy-wide shock, such as a recession?
- People react to these stressful events in different ways
- Individuals in emerging countries are normally more exposed to macroeconomic and financial shocks

An important question is how quickly they can recover from these shocks

How to build resilience?: The role of financial institutions in improving financial health

- Individual participation in the formal financial system provides a more secure environment than other informal financial providers (i.e. informal lenders, family, friends) for people to manage their personal finance
- A given amount of income managed in a more efficient way improves financial health. This is to build resilience
- **Hypothesis 1 - Spending:** If an individual is not able to fully comply with their financial obligations they will surely not be able to quickly bounce back from a financial shock
- **Hypothesis 2 - Long term savings:** Individuals that build savings will be able to use them in case of a financial shock
- **Hypothesis 3 - Loans:** Individuals that are able to get a loan have a higher chance of recovering from a shock
- **Hypothesis 4 – Insurance:** Having insurance can help ease out of a financial shock

Participation in the formal financial system

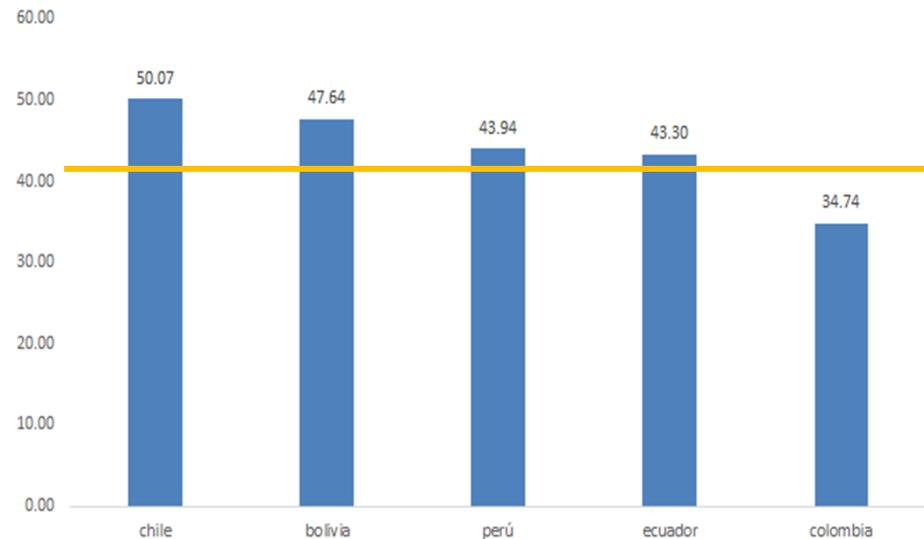


Source: Global Findex, World Bank

Most people in the world are struggling financially

Financial health indicator: 8 highest – 0 lowest

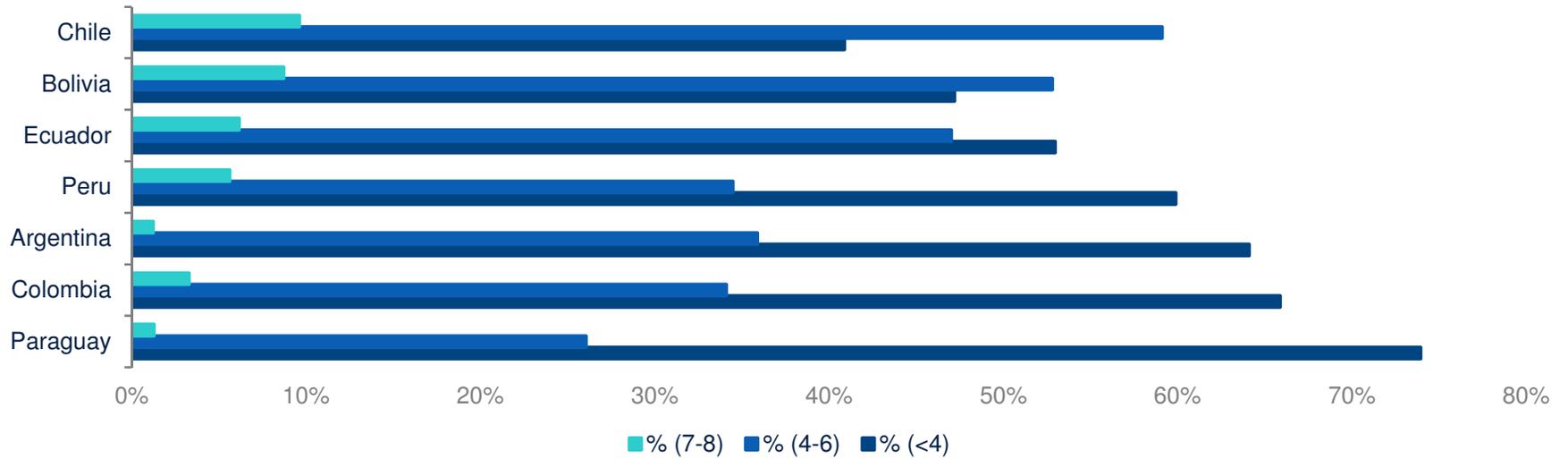
Use of this financial health framework has enabled to build tangible measures of **consumer financial success**, outline **specific behaviors** associated with those outcomes, and create pathways for the financial services industry to help encourage consumer financial health



Source: BBVA Research and CAF

Financial health indicator: Distribution in LatAm

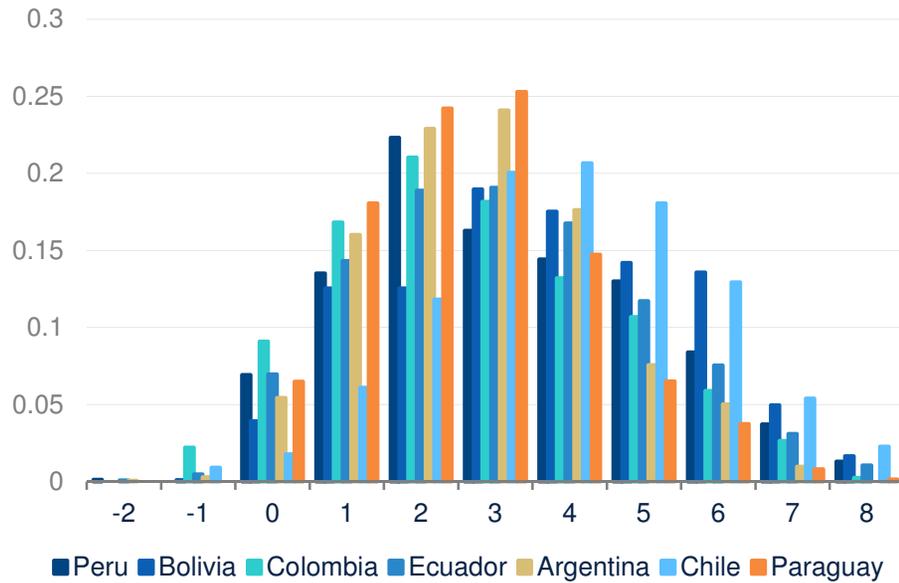
Distribution of financial health by scoring (% of individuals, ordered by percentage of low grade)



Source: BBVA Research and CAF

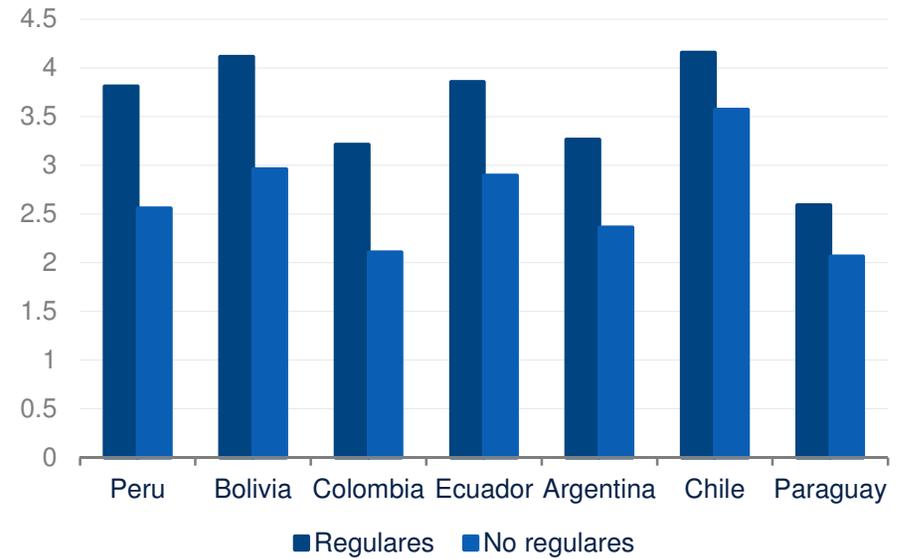
Financial health indicator: LatAm

Distribution of individuals in the index



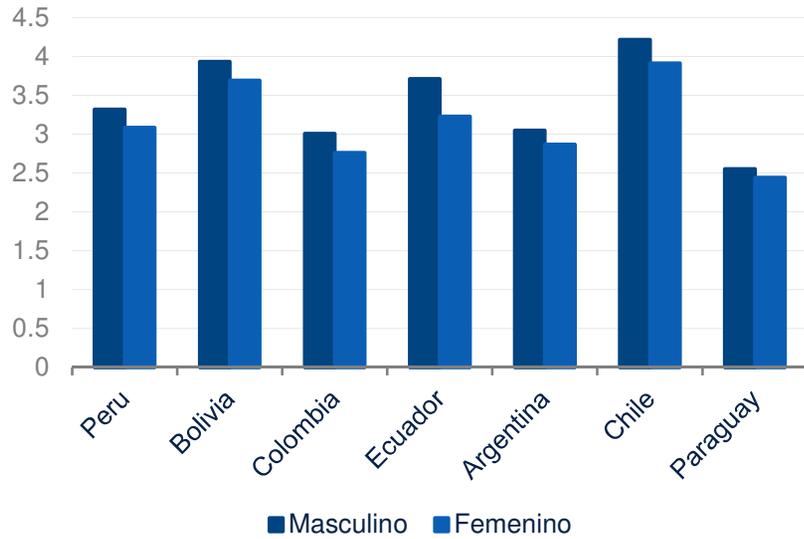
Source: BBVA Research and CAF

Frequency of Income

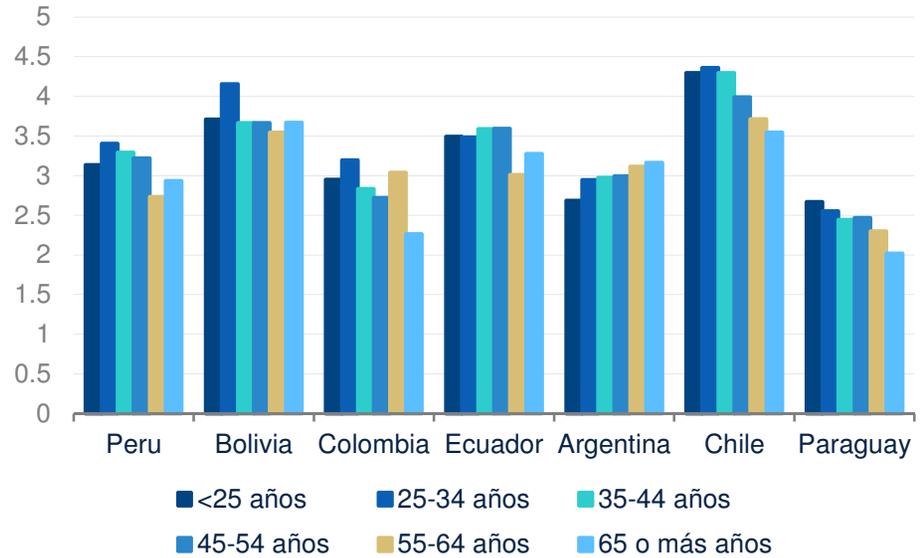


Understanding financial health (LatAm): It is more than income

Gender



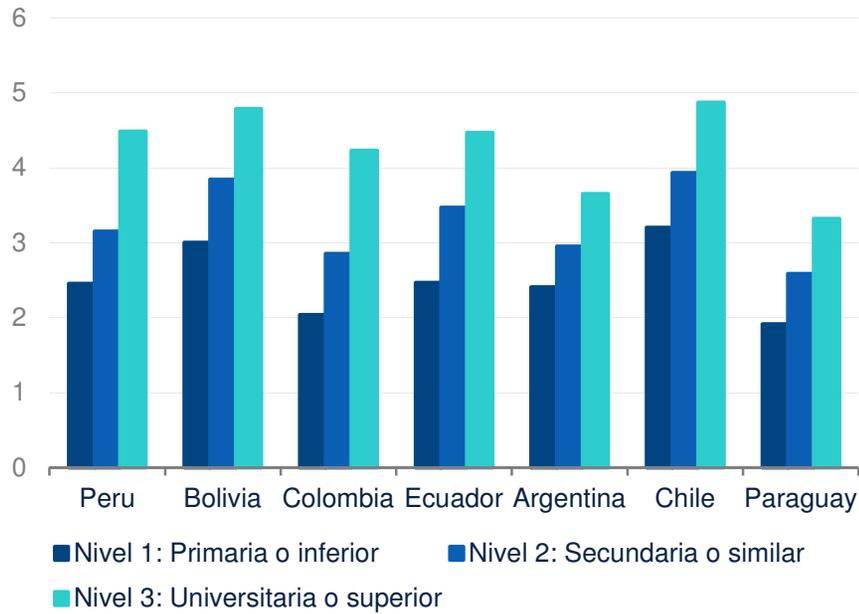
Age groups



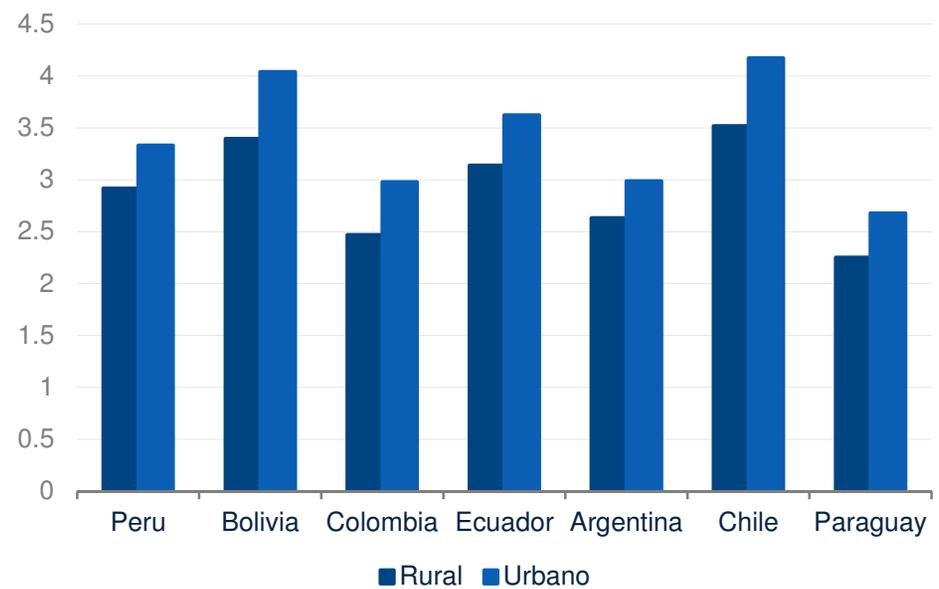
Source: BBVA Research and CAF

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Education level



Rural versus urban stratum



Source: BBVA Research and CAF

Conclusions

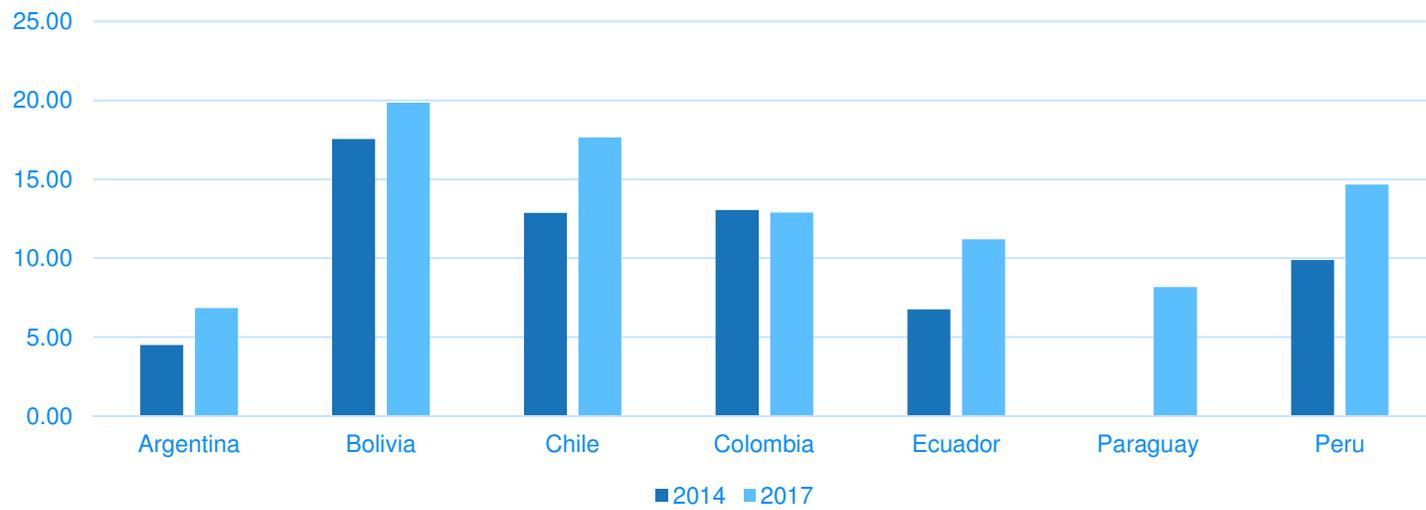
- Establishing a deeper understanding of the impact financial services have on people's lives is vital. Yet metrics/public statistics that demonstrate improvements in financial health remain in their infancy
- Measurement vs. Impact: Reaching more people - financial inclusion - and helping them to make better financial decisions – financial health
- Helping people balance income and expenses, manage a sustainable debt load and prepare for old age are at the core of a financially healthy society

Conclusions

- The financial health framework opens new avenues for examination, such as the relationship between formal financial service use and financial health. This is room for new research
- The financial health framework is likely to be of significant interest to policymakers, who can use it both to gauge the financial health of a country or region's population, as well as to track progress in improving it

Appendix

Saved for old age (% age 15+)



Financial Health

Dimensions

Dimension on balance between income and expenditure

Factor	Question
Expenditure less than income (GASTO 1)	Sometimes people find that their income does not quite cover their expenses. In the last 12 months, has this happened to you?
Pay bills on time and in full (GASTO 2)	What did you do to make ends meet the last time this happened? Did you do anything else?

Source: CAF and CFSI

Financial Health

Dimensions

Savings Dimension

Factor	Question
Have liquid savings (AHORRO 1a)	In the last 12 months, have you been saving money in any of the following ways (whether or not you have the money yet)? And now can you tell me if you currently hold any of these types of products (personally or jointly)?
Have long-term savings or assets (AHORRO 2)	In the last 12 months, have you been saving money in any of the following ways (whether or not you have the money yet)? And now can you tell me if you currently hold any of these types of products (personally or jointly)?

Source: CAF and CFSI

Financial Health

Dimensions

Lending Dimension

Factor	Question
Have a sustainable debt load (PRESTAMO 1)	And now can you tell me if you currently hold any of these types of products (personally or jointly)?
Have a prime credit score (PRESTAMO 2)	And in the last two years, which of the following financial products have you chosen (personally or jointly), even if you no longer hold them today?

Source: CAF and CFSI

Financial Health

Dimensions

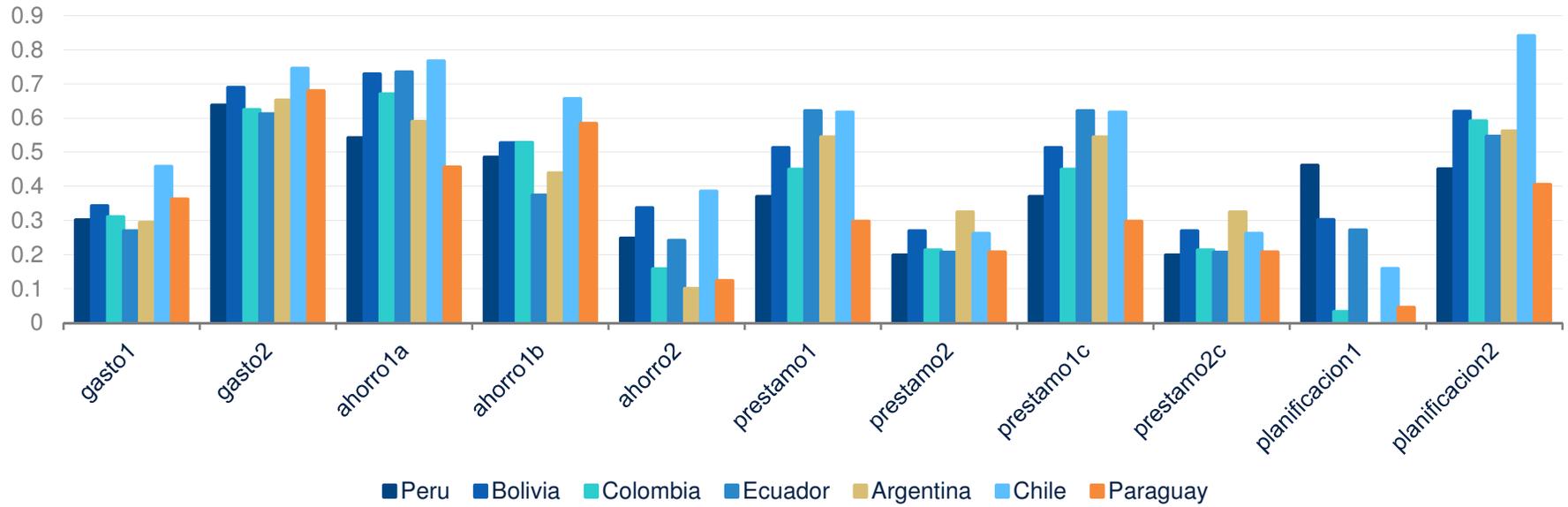
Planning Dimension

Factor	Question
Have insurance (PLANIFICACION 1)	And now can you tell me if you currently hold any of these types of products (personally or jointly)?
Plan ahead for expenses (PLANIFICACION 2)	Does your family have a budget?

Source: CAF and CFSI

Financial health indicator: BBVA Research

Percentage of individuals who take value 1 in the indicator



Source: BBVA Research and CAF

The logo for BBVA Research, featuring the word "BBVA" in a bold, white, sans-serif font, followed by the word "Research" in a smaller, lighter weight of the same font. A small teal square is positioned to the right of the word "Research".

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