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Principles for Responsible Banking

Guidance for banks

Core Indicators to Measure Financial Health and Inclusion

Principles for Responsible Banking

Acknowledgements

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How to use this Guidance

As your bank progresses in the implementation of the Principles for Responsible Banking (PRB), the aim of this Guidance is to **facilitate the processes of target setting, action plan design, and reporting** for banks that have chosen Financial Health and/or Financial Inclusion as one of their areas of significant impact.

This Guidance is divided into three sections:

A Framework for Financial Health and Inclusion

The PRB Working Group on Financial Health and Inclusion has worked together with experts, civil society organizations, and academia to charter the work on Financial Health and Financial Inclusion carried out by banks as part of their PRB implementation. In it, the group has agreed on definitions and a combined pathway to impact. The group has also agreed on the core indicators which will serve as a common language to guide good practices in the community of PRB signatories, measure progress, and foster active collaboration to drive results for people and planet.

This Framework has been designed to ensure that all signatory banks, regardless of geography and size, can consider and understand the opportunities to drive improved financial inclusion and financial health for their customers. It is crucial that banks understand the key components and areas of potential focus that can enable improved outcomes, ensuring financial products and services are available and accessible for individuals, entrepreneurs, and organizations, especially those who are considered vulnerable and/or with protected characteristics (refer to Appendix A for vulnerability and equality definitions).

Common definitions

Based both on the definitions available in the Guidance for Target Setting on Financial Health and Inclusion and the Commitment on Financial Health and Inclusion, the Working Group has defined **Financial Health** as **a state in which an individual, household, micro, small or medium-sized enterprise can smoothly manage their current financial obligations and have confidence in their financial future.**[1] This includes four elements:

- managing day-to-day finances to meet short term needs
- capacity to absorb financial shocks (resilience)
- capacity to reach future goals
- feeling secure and in control of finances (confidence)

These can be achieved through the three main drivers of financial health: **increased access to and improved usage of suitable products and services, the provision of transparent advisory services**, and **the strengthening of the financial skills of individuals and businesses**.

1 Definition based on UNSGSA—United Nations Secretary-General's Special Advocate for inclusive finance and for development—that recently launched a Financial Health working group with leaders from financial and development sectors

Moreover, the group understands **Financial Inclusion is about ensuring access to financial products and services and "leaving no-one behind",** the central principle of the 2030 Agenda for Sustainable Development. Thus, it includes the provision of responsible saving, lending, investment, insurance, and advisory services (as relevant) that are available and accessible, along with the creation of opportunities for everyone to engage with the financial sector through suitable products and services and, where appropriate, support and advice that enables people to continue to benefit further into the future.

Typically, the focus is on segments such as unbanked, formerly banked, and underbanked individuals, households, micro, small and medium-sized enterprises. This does not mean that already banked parties are automatically considered to be financially included. Thus, true financial inclusion means **all individuals, micro and small enterprises should have the option to access** banking products and services via relevant and accessible channels, which are affordable and effective. This requires financial products and services to be designed and offered in a responsible manner.

As a starting point, banks must clearly identify which groups of customers to prioritize. A **prioritized group is a group that due to certain socio-economic characteristics is more likely to need support from banks to achieve Financial Health and/or Financial Inclusion.** Banks can identify a prioritized group based on the available disaggregated data from a **core set of indicators**. Such data can be disaggregated by different socio-economic characteristics such as gender, age, location, income level, disabilities, education level, type of business, economic sector etc. To help select which characteristics to use, banks should consider prioritization or vulnerabilities that are already identified in the context in which the bank operates.

Amongst the prioritized groups that banks can select, a special focus should be put, as much as possible, on the unbanked, underbanked, and formerly-banked individuals and businesses as well as those sections of the population that are most vulnerable.

Examples of prioritized groups are:

- Groups vulnerable due to gender (e.g. rural women, female-led MSMEs, female entrepreneurs, gender-based violence (GBV) victims/survivors of abuse)
- Groups vulnerable due to age (e.g. elderly or youth groups)
- Groups from a certain geographical areas or locations (e.g. rural, urban, peri-urban, farmers)
- Customers who have low-income or are in financial distress
- Climate change victims/natural disasters (connection to migration)
- People with little or no access to the internet and digital tools
- Single parents
- People with a disability

For more example see Annex A

Common Pathway to Impact

Based on a theory of change approach, a Pathway to Impact considers the relationship between inputs, actions, outputs, and outcomes to achieve an impact. In other words, it shows the desired results (output, outcome and impact) of the actions banks take based on input data. The **Pathway to Impact for Financial Health and Inclusion** presented on Figure 1 has been created by the Working Group based on work developed by UNSGSA[2] and UK's Financial Wellbeing Strategy.[3]

To better understand the Pathway to Impact for Financial Health and Inclusion please consider that:

- Input information/data from the country and the bank should be used to prioritize groups of customers and guide decision-making when implementing actions.
- Actions can be categorized into four types of enablers or inhibitors: actions related to products and services based on the **portfolio composition**, to **client engagement**, to internal processes and data analytics based on **internal policies and processes**, and to partnerships through the bank's **advocacy**. These can onset positive or negative impacts on financial inclusion and financial health.
- An action can be **deemed successful if it achieves the desired output** without generating a detriment of other indicators directly associated with negative impacts. Combined successful actions, if closely monitored, should generate the desired outcome and, moreover, impact.
- A focus on vulnerability and equality should be continuously kept.

For banks who focus just on Financial Inclusion, the pathway (Figure 2) asks that:

- **Special focus be put on unbanked, formerly banked, and underbanked** individuals, households, micro, small and medium-sized enterprises (especially those considered vulnerable due to certain socio-economic characteristics), without neglecting existing clients who can't access further financial opportunities to improve their financial health.
- Access to basic banking products should be the immediate result of actions, but access without barriers to suitable banking products and services, not just basic products, should be the targeted impact for banks focused on financial inclusion.
- Additionally, a target set for financial inclusion should seek to **achieve significant changes in the inclusion of vulnerable unbanked and underbanked groups while keeping a financial health approach on all actions taken.**

For banks who focus on Financial Health, the pathway (Figure 3) asks that:

- Your bank aims to sustain already high levels of financial health in your customers and/or increase their existing levels of financial health when they are low. This can be achieved by using the **three main drivers of financial health** (strengthening financial skills, increasing the access to and better usage of financial products, services, and increasing the access to financial advisory services). **This means that full financial inclusion of an individual is part of their pathway to higher financial health**.

- Although banks are not directly responsible for increasing the income of people and/or businesses, they share the responsibility for helping customers manage their finances effectively, which is directly linked to financial health and wealth creation.

2 For more information click here
3 For more information click here

Figure 1: Combined Pathway to Impact for Financial Health and Inclusion

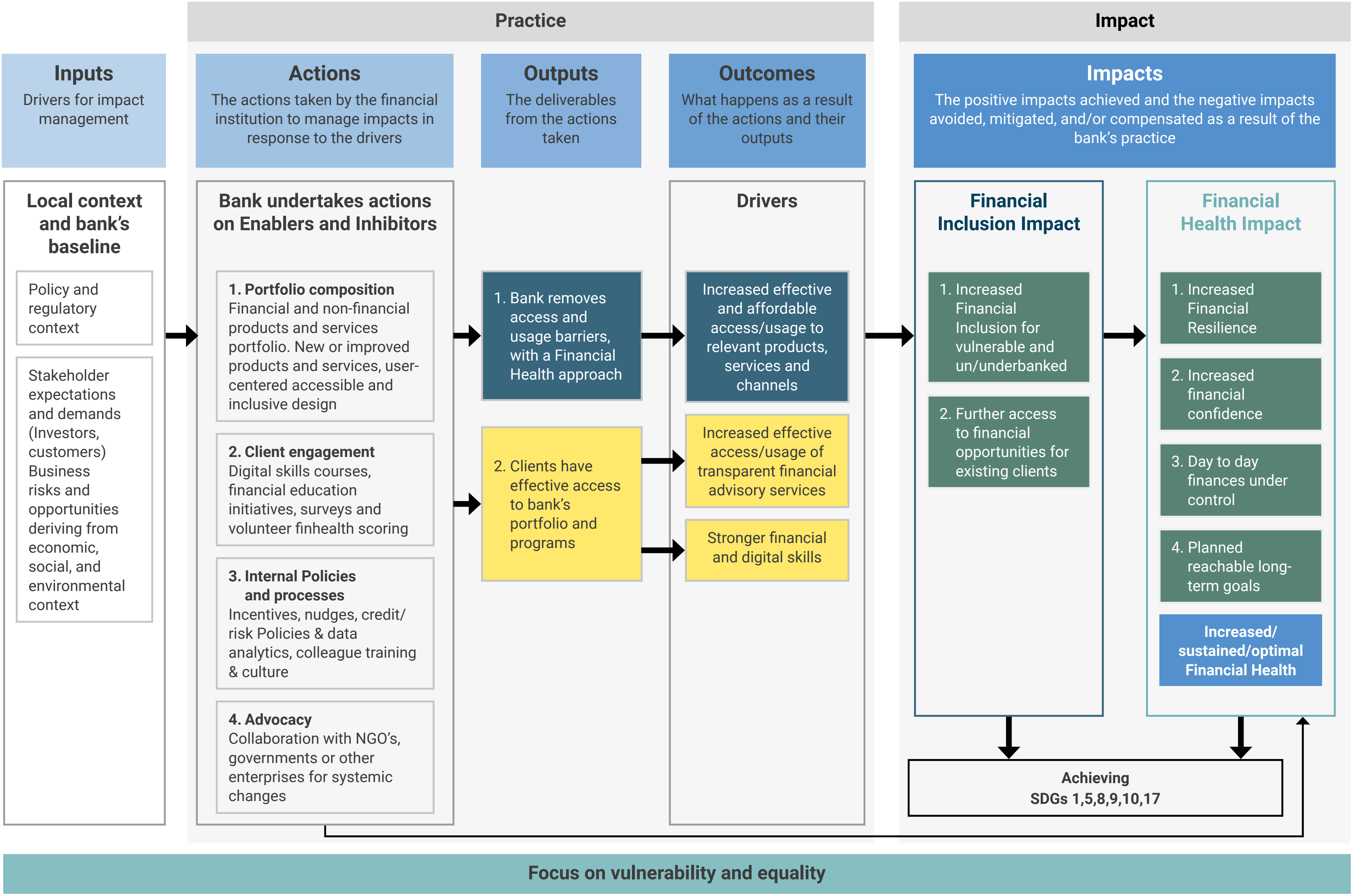


Figure 2: Pathway to Impact for Financial Inclusion

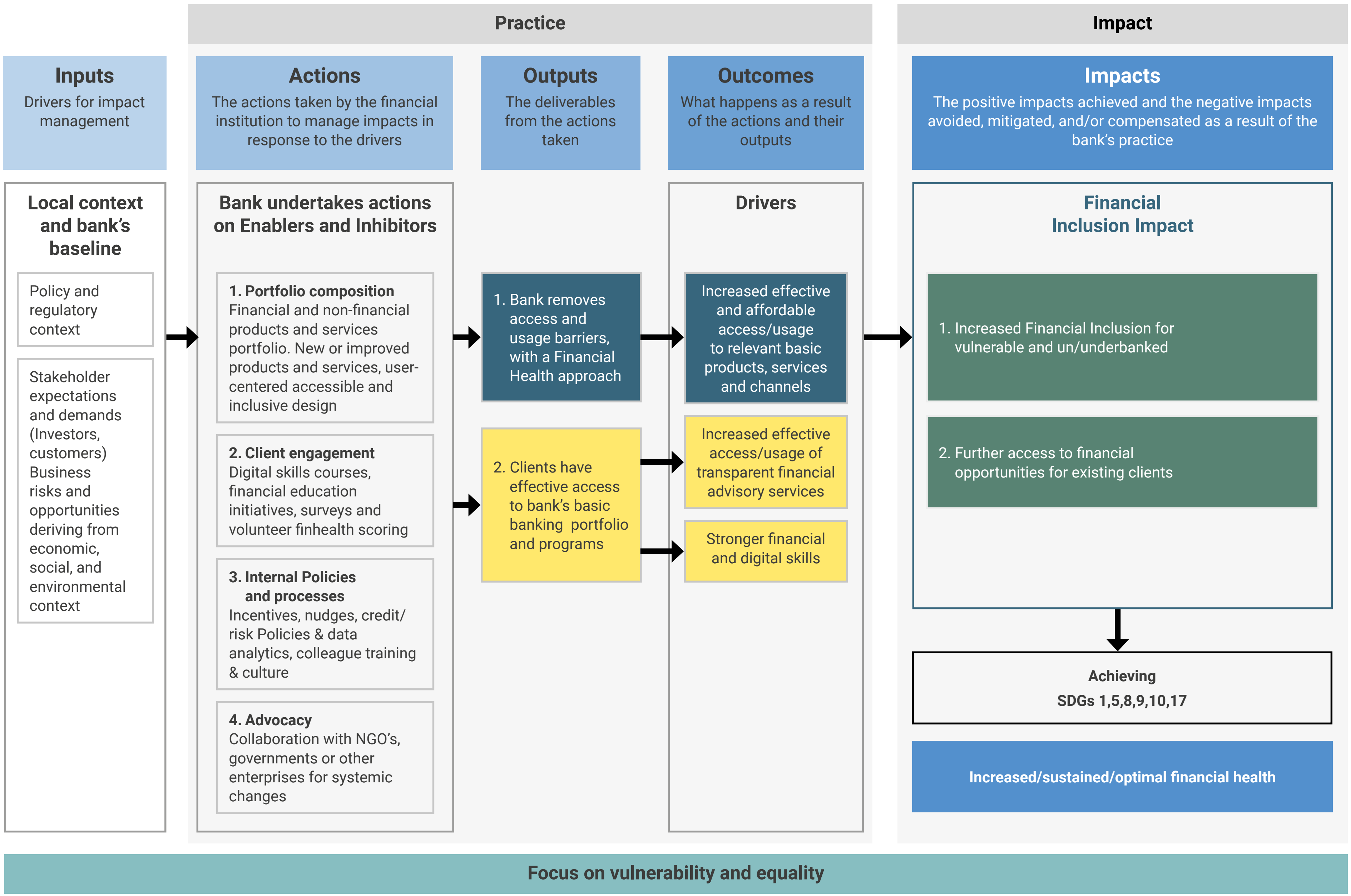
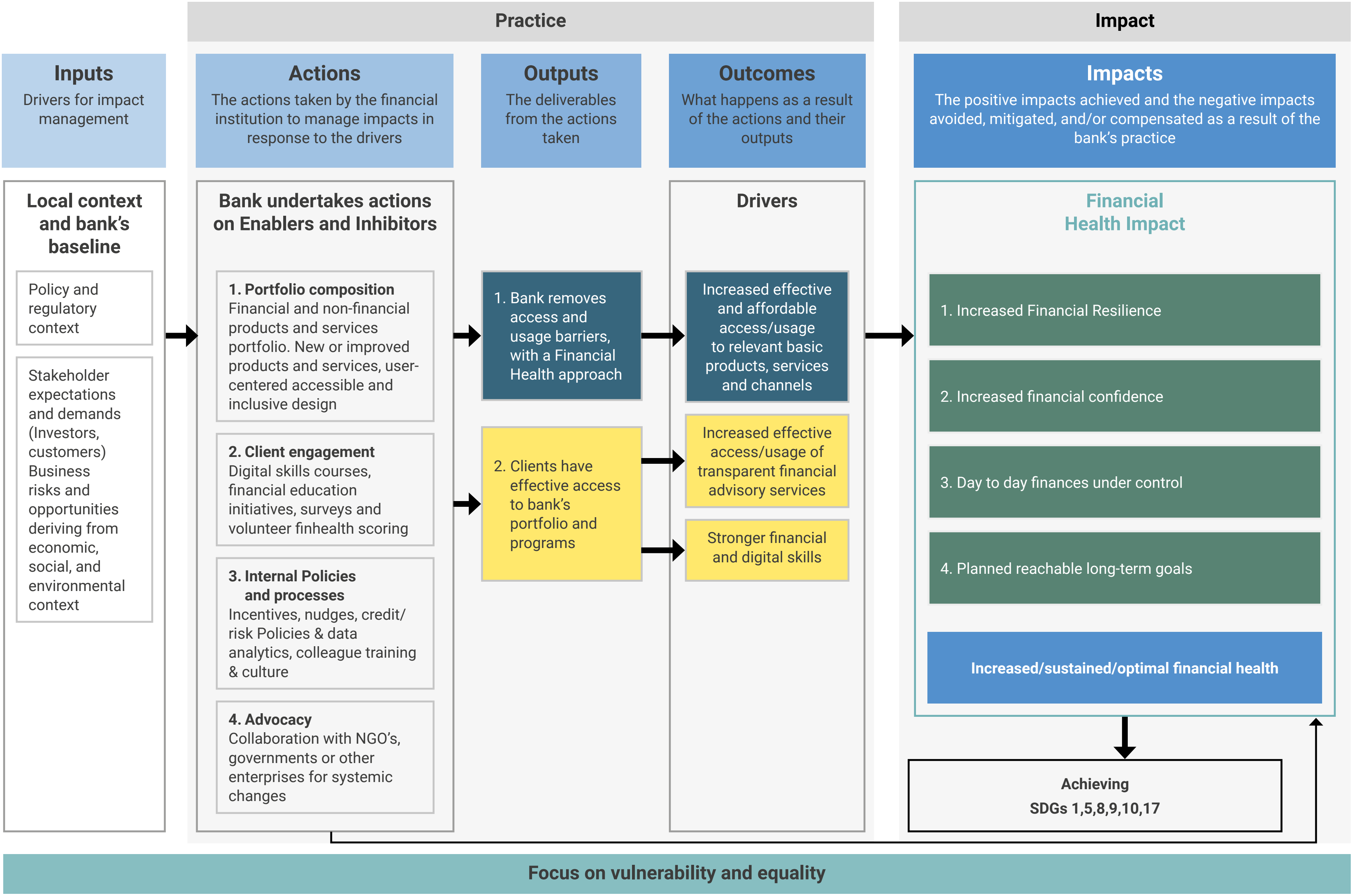


Figure 3: Pathway to Impact for Financial Health



Core indicators

The core indicators have been selected by the Working Group based on validity, insightfulness, connection to the pathway to impact (i.e whether they are impact-driven or not), and feasibility, from over 500 indicators that were crowdsourced from the financial ecosystem. Our aim is to have an all-encompassing set of metrics that allows for a common language, collaboration, and clear action in the areas of financial health and financial inclusion.

There are 20 core indicators in total: 10 specifically for Financial Health, 5 for Financial Inclusion and 5 that apply for both impact areas. Table 1 showcases the indicators according to their connection to the pathway to impact and the type of target they can generate (impact targets, client engagement targets and/or business/financial targets). Additionally, gender is very connected with financial health and inclusion, as gender dynamics often lead to a gap between the financial health of men and women. Therefore, several of the financial inclusion and health indicators can be used to target gender equality, particularly in cases where a bank has gender as an impact area. When a core indicator can be used by banks that have gender as one of their impact areas, this is showcased with an icon (⊜).

See Annex B for a detailed view of the Core Indicators, their definition, and suggested periodicity; Annex C for recommendations on how to measure financial health and financial skills, and Annex D for a list of products and services you can take into account when measuring some of the Core Indicators.

For further information on indicators, please visit our Indicator Library.

Table 1: Core indicators

Pathway level	Financial Inclusion	Financial Health	Both
Actions	# of products and services in the portfolio with a focus on financial inclusion	# of products and services in the portfolio with a focus on financial health	# of active partnerships to achieve financial health and inclusion targets % of relevant employees supported with effective training on financial inclusion, responsible credit and/or financial health
Output	# of new customers per month % of customers with effective access to a basic banking product		# of individuals supported with dedicated and effective financial and/or digital education initiatives
Outcome	% of customers supported with dedicated customer journey/advisory services	% of customers showing an increase or stable amounts in savings, deposit and/or investment account balances, quarter on quarter. % of customers with a non-performing loan % of customers using overdraft regularly % of customers who use the bank's services to create a financial action plan with the bank	% of customers actively using the online/mobile banking platform/tools % of individuals with a good and/or very good level of financial skills (see Annex C)
Impact	% of customers with 2 or more active financial products, from different categories, with the bank	% of customers with a high level of financial health (see Annex C) % of customers for which spending exceeded 90% of inflows for more than 6 months last year % of customers that feel confident about their financial situation in the next 12 months % of customers with products connected to long-term saving and investment plans % of customers that would struggle to raise emergency funds or cover with insurance a major unexpected expense	

Impact target

Client engagement target

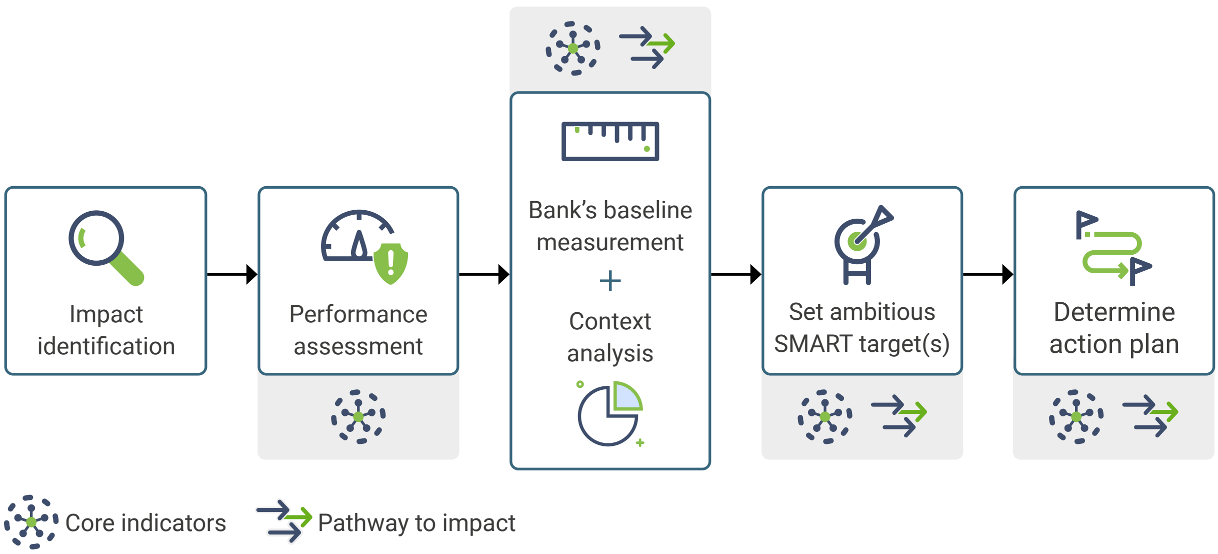
Business/financial target

Related to gender

How to use the Framework

Once your bank has completed an impact analysis and has defined Financial Health and/or Financial Inclusion as the area(s) of most significant impact, the next key step in the implementation of the Principles for Responsible Banking (PRB) is to set a target. PRB banks have committed to setting targets that are Specific, Measurable, Achievable, Relevant, and Time-bound.

The following infograph outlines how to use the Framework in your PRB implementation:



To measure your bank's baseline:

- Use **core indicators** in their generic form to complete a baseline measurement for the bank. For example: Use "% of new customers" (generic) vs. "% of new customers that are low-income women" (specific to a prioritized group). This will allow you to identify as many gaps as possible that your bank can work to close.
- Whenever possible, include historical data (ideally 2019-2022) that can be disaggregated by gender, age, income-level, disabilities, location, vulnerability, etc. (as far as allowed by privacy laws). The more indicators from the set your bank measures, the more complete the inputs for the **Pathway to Impact** are, and the easier it will be to set an impact-driven target.

To set ambitious SMART targets:

- Ideally you should set an ambitious impact-driven target using some of the **core indicators** (or alternatively your own indicators that are impact-driven and relevant to your bank's business model and strategy). For example, "increase the percentage of customers with an optimal level of financial health (3 or more points, based on our financial health score) from 34% in 2020 to 68% by 2025, showing the ambition to achieve a 10x (exponential growth) effect in a five-year period".
- Analyze data from bank's baseline considering the context analysis. Seek alignment with the country's priorities.
- Determine prioritized groups (if applicable).
- Determine baseline year for your target (starting point).
- Set your target to be Specific, Measurable, Achievable, Relevant, and Time-bound (SMART), as well as impact-driven. To make sure your target is impact-driven, review the **Pathway to Impact**.

To define an action plan:

- Use the **Pathway to Impact** to determine the actions and measures your bank will take to achieve your target
- Milestones can be set to showcase progress, by using core indicators that cover elements in the pathway that should happen before reaching your target. For example, improvement in "number of individuals in financial literacy initiatives" happens before improvement in "% of individuals with good or very good financial skills".
- Your bank can use the **core indicators**, personalized to your prioritized groups, to select relevant indicators to use as key performance indicators (KPIs) when monitoring progress towards your target.

UNEP FI Impact Protocol and Tools

For a complete overview of the impact management process from scoping to identification, performance assessment, target-setting and monitoring, please see the UNEP FI Impact Protocol.

To support you with your data collection, visualization, and analysis, you can use the UNEP FI Impact Tools; for your performance assessment and target-setting for financial inclusion and financial health, please use the Assessment Module/ Consumer Banking. All items can be downloaded here.

What to do after setting your target and defining your action plan and KPIs?

In order to bring Financial Health and Inclusion into the strategic priorities of your organization, ideally your bank should make these targets part of your sustainability strategy so that you can engage your PRB governance and increase your positive impact on people and planet.

Annex A: On vulnerability and equality

What do vulnerability and equality mean?

Vulnerability

The banks that were part of the Working Group in April 2021 reviewed several approaches for the definition of vulnerability that are aligned with the Financial Conduct Authority in the UK. Customer vulnerability can be present when customers face personal circumstances which expose them to increased susceptibility to damage, harm or loss when interacting with financial institutions. Vulnerable groups need to be treated fairly and consistently across the financial services sector.

Vulnerability may result in consumers having additional or different needs and may limit their ability or willingness to make financial decisions and choices or to represent their own interests. These consumers may be at greater risk of harm, particularly due to lower resilience when unexpected circumstances occur, and have a low ability to withstand financial or emotional shocks.

Banks should look to understand the nature and scale of characteristics of vulnerability that exist in their target market and customer base, its impacts and what types of harm or disadvantage their customers may be vulnerable to from a financial perspective, and how this might affect the customer experience and outcomes. Once this is understood, your bank can measure the appropriate KPIs.

There are six key drivers which may increase the risk of vulnerability:

- Health—physical and mental, disabilities or illnesses affecting the ability to carry out day-to-day tasks
- Life events—major life events such as bereavement, job loss, (forced) migration, relationship breakdown, financial setbacks, mental, and physical abuse. Also consider homeless people and former inmates
- Resilience—low ability to withstand financial or emotional shocks
- Education and capability—little knowledge of financial matters or low levels of financial education and confidence in managing money (financial capability) and low capability in other relevant areas such as literacy, or digital skills

- Digital and financial access—low ability to access beneficial services and products or low ability to get information and updates online
- Culture, social and demographics—such as, but not limited to, geographies/nationality, language, ethnicity, age, beliefs, economic status, gender, or sexual orientation

Equality

Equality relates to the state of being equal, especially in status, rights, and opportunities. It is the fundamental right of different groups of people to receive the same treatment. Each country and even different jurisdictions within the same country may classify the protected characteristics (where these are protected from unlawful discrimination or harassment) differently. Examples include gender, race, geography with less access to financial services, being a senior citizen (i.e. 80+), etc. The goal of equity recognizes that some individuals may require additional support to be able to achieve financial inclusion.

Examples of vulnerable groups:

- Discriminated or/and minority groups (e.g. ethnic minorities; LGBTQ+ community, speakers of minority languages, i.e. mother tongue speakers of languages different to the main language in the reference country/area; Indigenous Peoples)
- Decision making capacity (e.g. mental illness like dementia, Alzheimer's, depression, etc.)
- Young people not in education and not employed (NEET)
- Workers who have been made redundant or furloughed
- Migrants and displaced people (internal refugees/refugees/asylum seekers)
- Digital nomads and/or nomadic people
- People with low financial or digital literacy
- People experiencing homelessness
- People in prison or recently released from prison

Annex B: Core indicators

For detailed information on each core indicator download the complete database of indicators, core indicators, and optional indicators here.

Access the Excel sheet here

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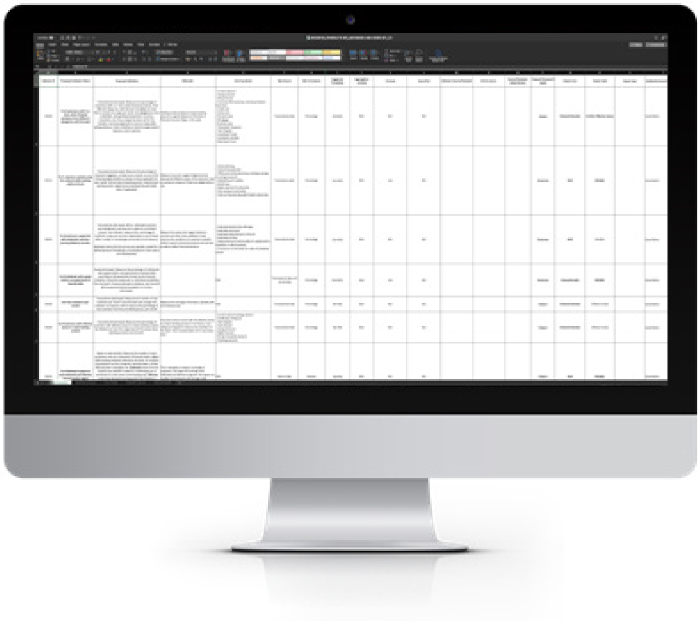

Annex C: Additional recommendations

On financial health scores

The working group acknowledges that there are several financial health scores currently available globally. Some scores are implemented by banks in line with national policies while other scores are created by banks and other organizations to capture the financial health of individuals and businesses. Nonetheless, there is still a need to determine a common set of standards for banks to select and implement a financial health score.

While the work on developing a common set of standards for these types of scores is being completed, the Working Group recommends that an FI's chosen score ideally allows for a meaningful and actionable analysis of the financial health of the customer, based on its financial confidence, financial resilience, future-planning, and day-to-day financial execution.

For more information on available Financial Health Scores, please refer to Annex B.

On financial skills assessments

The working group acknowledges that there are several financial skills assessment tools currently available globally. Some tools are implemented by banks in line with national policies while others are created by banks and other organizations to capture the strength of an individual's financial skills.

The Working Group recommends that a bank's chosen assessment tool ideally allows for a contextualized measure of financial knowledge as well as financial behaviors regarding personal/business finances by beneficiaries of its initiatives. The goal is that the bank can use the results of the assessment to demonstrate the effectiveness of its own initiatives in strengthening financial skills.

If a bank is looking to implement a holistic assessment tool, UNEP FI recommends the OECD's assessment of financial literacy as the most relevant ready-to-use tool available to capture the level of financial skills attained by a person regarding their own finances (knowledge, attitudes, and behaviors). Further information can be found here.

Annex D: Examples of products and services

% of clients with effective access to a basic banking product ▪ Current account savings account ▪ Certificates of Deposit ▪ Term Deposit ▪ Cash Account ▪ Savings Account ▪ Digital Account ▪ No fee transaction account ▪ Checking accounts	**% of customers with products connected to long-term saving and investment plans** ▪ Certificate of Deposit ▪ Term Deposit above 1 year ▪ Bonds ▪ Mutual Funds ▪ Savings Account ▪ Savings Account that enables you to set savings goals in an app ▪ Managed Funds ▪ Shared investment Accounts ▪ Retirement fund: pension plans	**% of customers supported with dedicated customer journey/advisory services** ▪ Dedicated Relationship Manager ▪ Dedicated call center ▪ Dedicated Sales/Advisory Channel ▪ Dedicated content ▪ Videoconference functionality for people with a disability or elderly people ▪ Priority turn at branches for elders & disabled people
% of customers actively using the online/mobile banking platform/tools ▪ Online Banking ▪ Online financial tools ▪ Offline and online tools (e.genvelope savings vs savings account) ▪ Mobile/Smart E-wallets ▪ Mobile app ▪ Digital payment functionality ▪ Goal savings functionality ▪ Clicks to financial education/ health advice tips	**% of customers with 2 or more active financial products, from different categories, with the bank** ▪ Current account ▪ Savings account ▪ Mutual Funds ▪ Insurance: life insurance, income protection insurance ▪ Credit card ▪ Home Loan ▪ Personal Loan ▪ Mortgages ▪ Business Loan ▪ Transaction Accounts ▪ Term Deposit ▪ Investment Funds ▪ Investment Lending ▪ Retirement Fund	**# of products and services in the portfolio with a focus on financial health/inclusion** ▪ Product suitability ▪ Hardship ▪ Extracare ▪ Roundup ▪ High-yield savings account ▪ Vaults ▪ Embedded Insurance

United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between UNEP and the global financial sector to mobilise private sector finance for sustainable development. UNEP FI works with more than 450 members—banks, insurers, and investors—and over 100 supporting institutions—to help create a financial sector that serves people and planet while delivering positive impacts. We aim to inspire, inform and enable financial institutions to improve people's quality of life without compromising that of future generations. By leveraging the UN's role, UNEP FI accelerates sustainable finance.

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