

Small Business Financial Health



July 30, 2020

Agenda

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Introductions

2.

What is Financial
Health?

3.

Why Measure?

4.

How to Measure
Small Business
Financial Health

5.

Discussion



ABOUT

Our mission is to improve financial health for all.

The Financial Health Network is a trusted resource for business leaders, policymakers, and innovators united in a mission to improve the financial health of their customers, employees, and communities. We envision a future where all people, especially the most vulnerable, have the financial systems they need to be resilient and thrive.



Small Business Financial Health

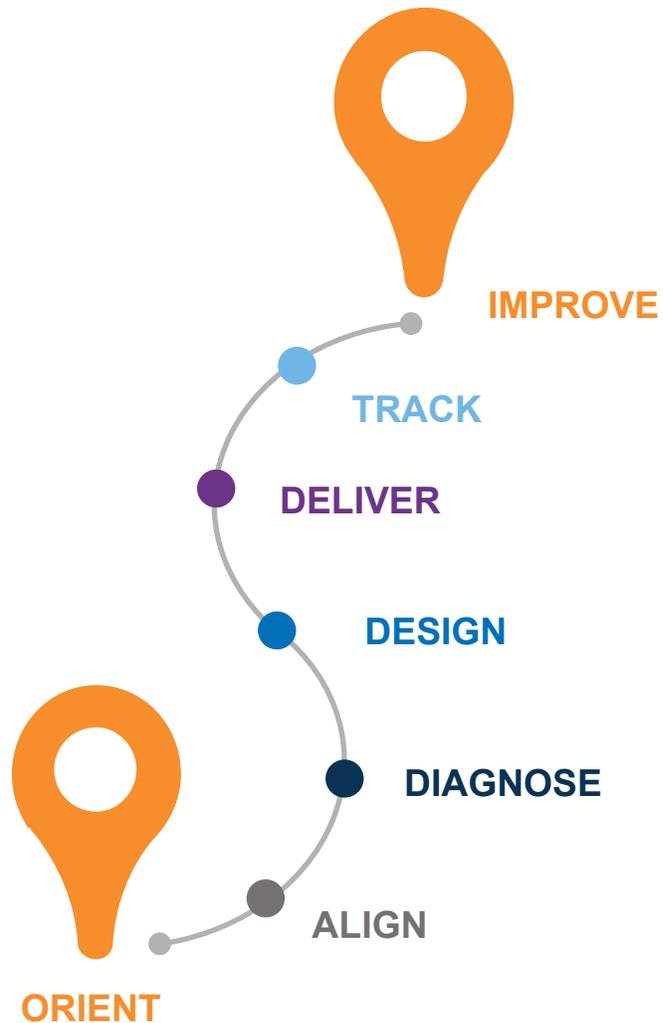




Financial Health

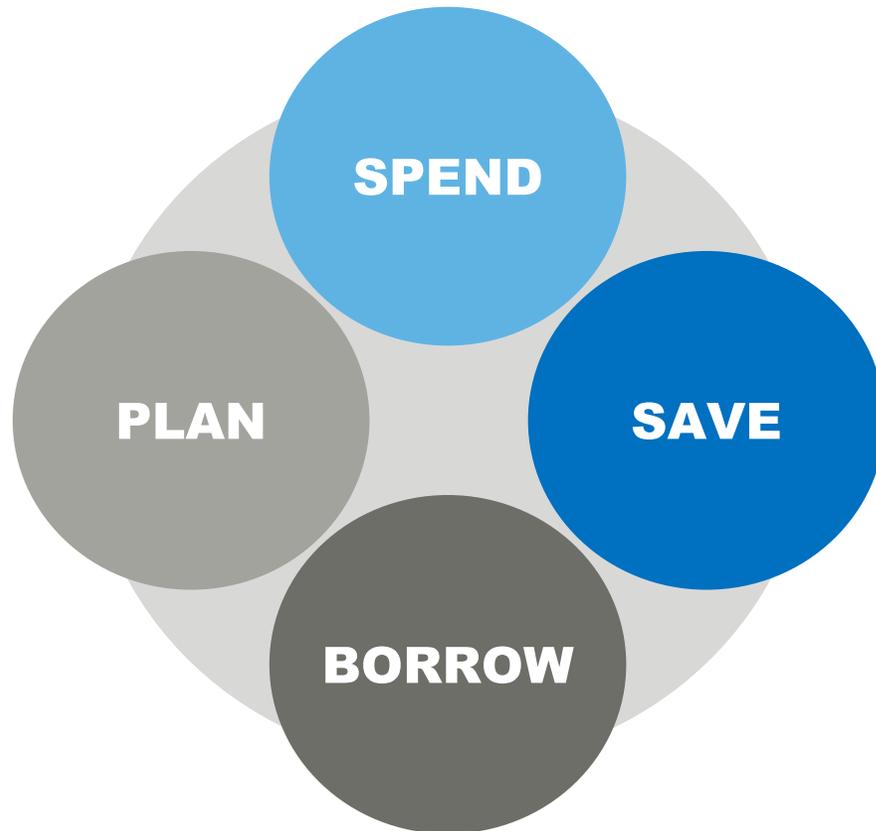
comes about when your financial systems help you build resilience and pursue opportunities.

Financial Health Journey



1. **ORIENT:** Understand Financial Health in America
2. **ALIGN:** Consider Financial Health within the Context of Your Company
3. **DIAGNOSE:** Assess Your Customers' Financial Health
4. **DESIGN:** Develop Strategies to Improve Financial Health
5. **DELIVER:** Launch Your Financial Health Strategy
6. **TRACK:** Monitor Shifts in Your Customers' Financial Health
7. **IMPROVE:** Evaluate Your Strategies for Greater Impact

Measuring Consumer Financial Health



You are financially healthy when you...

SPEND

1. Spend less than income
2. Pay bills on time and in full

SAVE

3. Have sufficient liquid savings
4. Have sufficient long-term savings or assets

BORROW

5. Have a sustainable debt load
6. Have a prime credit score

PLAN

7. Have appropriate insurance
8. Plan ahead for expenses

For more information, see: [Eight Ways to Measure Financial Health](#)

Small Business Financial Health

For a small business, financial health comes about when its daily systems help it build resilience and pursue opportunities.



Why Measure?

Measuring During a Pandemic

What can measurement tell you?

- **Who to target**
 - Change in average bank account balance
 - Credit line usage and capacity
- **Acute needs**
 - NSF and Overdraft usage
 - Declining cash buffer days

Financial Health Measurement Use Cases

1 Inform product development and develop strategic partnerships

2 Evaluate the financial health impact of products and programs

3 Engage with customers and deepen business relationships

1 Inform product development and develop strategic partnerships



Servus Credit Union

- Headquartered in Edmonton, Alberta, Canada
- Surveyed members using the FinHealth Score[®]
- Members had low Plan and Save scores
- In response, Servus prioritized developing a **goal-setting tool, a new savings product, and financial advisor tools** to support client conversations

2 Evaluate the financial health impact of products and programs

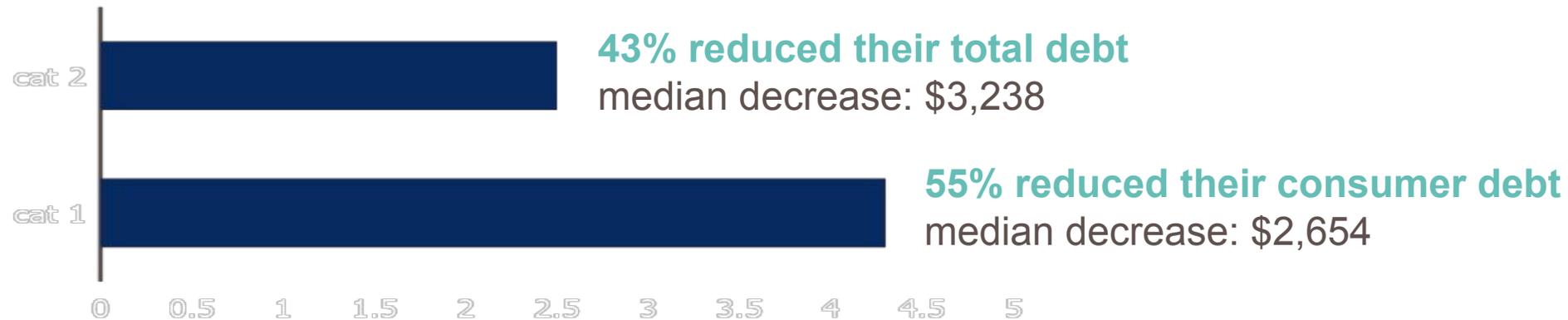
ACCION

TrustPlus™

Accion & Neighborhood Trust

42% of participants improved their credit score during the 6 month period

- 11% increased their credit score by more than 40 points
- Median increase: 27 points



Client Feedback after Trust Plus referral

- Average satisfaction rating: **4.6 out of 5**
- 100% agree with the statement: “Because they offer this service, I feel like Accion cares about my well-being.”

“I have more awareness on costs and management”

“I pay a lot more attention to what is going out and what is coming in”

“I set up an emergency fund”

“I paid down credit card balances”

3 Engage with customers and deepen business relationships

Wright-Patt Credit Union



- Headquartered in OH
- Integrated the 8 financial health questions into the MoneyMagnifier program, which offers 1:1 sessions with Member Center Financial Coaches.
- Spending more than income, over indebtedness, and lack of savings were the top issues.
- The survey questions provide the credit union a way to categorize finhealth needs and track member progress.

How to Measure

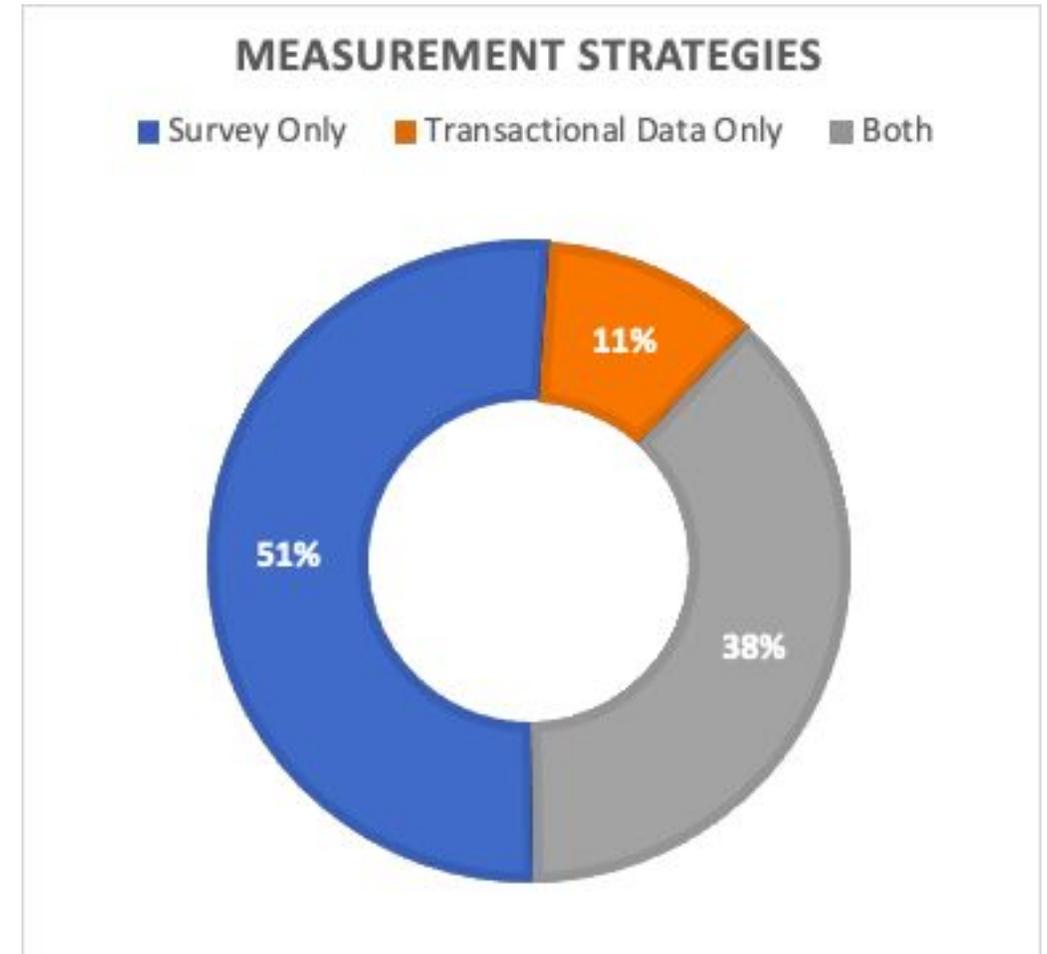
Small Business Financial Health

For a small business, financial health comes about when its daily systems help it build resilience and pursue opportunities.



2020 Measurement Strategies

1. Survey data
2. Transactional data
3. Hybrid approach



Where does the data come from?

Survey measurement	Transaction analysis
Moment-in-time snapshot	Ongoing analysis
Benchmark results	Track changes over time
Identify next steps	Connect with customers and test interventions
Hard to deploy frequently	Based on imperfect data, evolving as new information becomes available

Boeing Employee Credit Union



- Headquartered in WA with more than 1 million members
- Started with survey financial health measurement of their entire customer base.
- Used the results to “train” transactional data associated with Spend, Save, Borrow, and Plan and build a predictive model.
- Tested different financial health variables to get higher accuracy in their model to predict customer financial health based on transactional data alone.

Discussion



Appendix



Guide to Small Business Financial Health Measurement

This guide is designed for a financial service provider to assess the financial health of the small businesses they currently serve or want to serve.

The guide includes nine indicators of small business financial health with two methods to measure (survey data or observed data), as well as corresponding survey questions and suggested data points.

The purpose of measurement is to better understand customer needs, in order to develop and offer products, services, and solutions that improve small business financial health.



MANAGES

INDICATOR #1-3

Meets Financial Obligations

The business is able to pay bills, employees, taxes, and other obligations on time and in full.

DATA POINT

Overdraft / non-sufficient funds fees

Good None
Caution 1 - 3 per year
At Risk 4 or more per year

DATA POINT

Late fees from vendors or lenders

Good None
Caution 1 - 3 per year
At Risk 4 or more per year

DATA POINT

Tax liens / judgements

Good None
Caution 1 - 2
At Risk 3 or more

SURVEY QUESTION

Over the past year, which of the following statements best describes how well your business is keeping up with its financial obligations? Please consider bills, taxes, payroll, and debt payments.

Good a) Pay all on time
 b) Pay almost all on time
Caution c) Pay most on time
At Risk d) Pay some on time
 e) Pay very few on time

SOURCE

Transactional account(s), such as business checking account and credit card account(s)

SOURCE

Lenders can use internal data on timely payments. Also transactional account(s).

SOURCE

Business credit report

Maintains Sufficient Cash Reserves

The business has sufficient cash on hand to cover unexpected, but common, expenses and fluctuations in income.

DATA POINT

Cash buffer days*

Good Over 3 months
Caution 1 - 3 months
At Risk Less than one month

SOURCE

Transactional account(s), such as business checking accounts that receive revenue and pay expenses

SURVEY QUESTION

Generally, the business has cash available to cover:

- Good*
- a) More than one year of operating expenses
 - b) 7 - 12 months of operating expenses
 - c) 4 - 6 months of operating expenses
- Caution* d) 1 - 3 months of operating expenses
- At Risk* e) Less than one month of operating expenses

* Cash available to cover usual expenses in the case that revenue ceased, measured in days available

Maintains a Comprehensive Financial Management System

The business has a financial management system that allows financial decision-maker(s) to make informed decisions concerning cash flow, profitability, and investment, and is able to share that information with external parties.

DATA POINT

Time lapse between when transactions occur and when they are classified for bookkeeping and analysis

Good Less than 1 month
Caution 1-3 months
At Risk Over 3 months

SOURCE
Business accounting system, such as Quickbooks, Xero, or other system

DATA POINT

Business and personal funds are separated

Good Full separation of accounts
Caution Partial separation
At Risk No business accounts

SOURCE
Existence and use of a business checking account and other business accounts

SURVEY QUESTION

When is the last time you reviewed a profit and loss statement for the business?

Good a) In the last month
Caution b) Over a month ago
 c) Over six months ago
At Risk d) Over 12 months ago
 e) Do not have a P&L



PLANS

INDICATOR #4-6

Plans for Significant Business Risks

Identifying business risks and ways to mitigate those risks, such as diversifying revenue sources, is essential to building a resilient small business.

DATA POINT

Completed a business planning session or module

Good Complete
Caution Partially or for a specific risk
At Risk Never

SOURCE

Business planning resources, such as online modules or in-person coaching or advising sessions

DATA POINT

Able to provide a plan for common, applicable business risks

Good Complete/nearly
Caution Partial, only covers some risks or is weak in risk mitigation
At Risk Not able to provide

SOURCE

Provider request for plan covering risks and risk mitigation

SURVEY QUESTION

I have a plan to address common business risks (new competition, loss of key personnel or customer, natural disaster damage, etc.).

Good a) Strongly agree
b) Somewhat agree
Caution c) Somewhat disagree
At Risk d) Strongly disagree

Plans for Cash Flow Variability

Variable cash flow is a fact of life for small businesses. However planning for and managing the variability can mean the difference between making it and closing up. In practice, it means proactively identifying times that funds may be low or negative and seeking out solutions before a crisis happens.

DATA POINT

Completed a cash flow planning session or budget

Good Complete within the last year
Caution Partially or over a year ago
At Risk Never

SOURCE

Business accounting system, such as Quickbooks, Xero, or other system

DATA POINT

Able to provide a cash flow budget

Good Complete/nearly
Caution Budget is partial
At Risk Not able to provide

SOURCE

Provider request for financial projections

SURVEY QUESTIONS

I know how much money needs to come in and when in order to meet financial obligations.

Good a) Strongly agree
 b) Somewhat agree
Caution c) Somewhat disagree
At Risk d) Strongly disagree

I have a plan in case of a cash shortfall due to late payments or an emergency expense.

Good a) Strongly agree
 b) Somewhat agree
Caution c) Somewhat disagree
At Risk d) Strongly disagree

Has Appropriate Insurance

Insurance can compensate small businesses for large losses that are impractical to save for, such as natural disaster damage or accidents.

DATA POINT

Proof of insurance relevant for the industry and operation

Good Complete/nearly
Caution Coverage is partial
At Risk Not insured

SOURCE
Insurance provider or provider request

DATA POINT

Payment to insurance carriers

Good Complete/nearly
Caution Coverage and/or payment is partial
At Risk Not insured

SOURCE
Transactional account(s), such as business checking account used to pay insurance or business accounting system, such as Quickbooks, Xero, or other system

SURVEY QUESTION

I am confident that the business's insurance policies will provide enough support in case of an emergency. Please consider the coverage you have for vehicle(s), property, and liability insurance, if applicable.

Good a) Strongly agree
 b) Somewhat agree
Caution c) Somewhat disagree
At Risk d) Strongly disagree



ACCESS TO CAPITAL

INDICATOR #7-9

Has Access to Affordable, Timely Credit

When a business needs credit, there are two factors that weigh heavily as to whether the credit is helpful:
1) affordability, or the price and terms of credit, and 2) how quickly the funds are available.

DATA POINT

Business owner's credit score

Good Prime
Caution Near prime
At Risk Subprime

SOURCE

Credit score

DATA POINT

Credit capacity on existing lines of credit

Depends on the size and type of the business

SOURCE

Credit report (business and personal)

SURVEY QUESTION

How would you rate your credit score? *Your credit score is a number that tells lenders how risky or safe you are as a borrower.*

Good a) Excellent
b) Very Good
Caution c) Good, d) Fair
At Risk e) Poor, f) Don't Know

I have access to affordable, timely credit to meet my business needs.

Good a) Strongly agree
b) Somewhat agree
Caution c) Somewhat disagree
At Risk d) Strongly disagree

CAPITAL

Has a Sustainable Debt Load

Over-indebtedness can siphon funds away from business expenses and investment in order to make debt payments.

DATA POINT

Debt-to-equity ratio
Depends on the type of the business

SOURCE
Business financial statements

DATA POINT

Debt service coverage ratio or cash flow available for debt service
Depends on the size and type of the business

SOURCE
Business financial statements

SURVEY QUESTION

How would you describe the business's debt? *Including any personal debt you took on for the business.*

Good a) Do not have debt
b) Have manageable amount of debt

Caution c) Have a bit more debt than it can manage

At Risk d) Have much more debt than it can manage

CAPITAL

Has Access to Investment Capital

Many small businesses struggle to find adequate funding to start, sustain, and grow a business.

DATA POINT

Business's credit score
Depends on the score

SOURCE
Business credit score provider

DATA POINT

Retained earnings
Depends on the size and type of the business

SOURCE
Business financial statements

SURVEY QUESTION

I have access to the funding needed to achieve my business goals.

Good a) Strongly agree
b) Somewhat agree

Caution c) Somewhat disagree

At Risk d) Strongly disagree

Thank You

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