1. 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.
What We Do

- Research and analysis
- Membership services
- Innovation support
- Measurement tools
- Consulting
Small Business Financial Health
Financial Health

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

**Small Business Financial Health**

<table>
<thead>
<tr>
<th>MANAGES</th>
<th>PLANS</th>
<th>CAPITAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meets financial obligations</td>
<td>Plans for significant business risks</td>
<td>Has access to affordable, timely credit</td>
</tr>
<tr>
<td>Maintains sufficient cash reserves</td>
<td>Plans for cash flow variability</td>
<td>Has a sustainable debt load</td>
</tr>
<tr>
<td>Maintains a comprehensive financial management system</td>
<td>Has appropriate insurance</td>
<td>Has access to investment capital</td>
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</tbody>
</table>

A small business is financially healthy when it:
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
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
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

43% reduced their total debt
median decrease: $3,238

55% reduced their consumer debt
median decrease: $2,654
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 paid down credit card balances”

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

“I set up an emergency fund”
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.

A small business is financially healthy when it:

**MANAGES**
- Meets financial obligations
- Maintains sufficient cash reserves
- Maintains a comprehensive financial management system

**PLANS**
- Plans for significant business risks
- Plans for cash flow variability
- Has appropriate insurance

**CAPITAL**
- Has access to affordable, timely credit
- Has a sustainable debt load
- Has access to investment capital
2020 Measurement Strategies

1. Survey data
2. Transactional data
3. Hybrid approach
## Where does the data come from?

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

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

**DATA POINT**

**Late fees from vendors or lenders**
- **Good** None
- **Caution** 1 - 3 per year
- **At Risk** 4 or more per year

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

**DATA POINT**

**Tax liens / judgements**
- **Good** None
- **Caution** 1 - 2
- **At Risk** 3 or more

**SOURCE**
Business credit report

**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
  - d) Pay some on time
  - e) Pay very few on time
- **At Risk**
The business has sufficient cash on hand to cover unexpected, but common, expenses and fluctuations in income.

**DATA POINT**

<table>
<thead>
<tr>
<th>Cash buffer days*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Good</strong> Over 3 months</td>
</tr>
<tr>
<td><strong>Caution</strong> 1 - 3 months</td>
</tr>
<tr>
<td><strong>At Risk</strong> Less than one month</td>
</tr>
</tbody>
</table>

**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
  e) Less than one month of operating expenses

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

### MANAGES

### Maintains a Comprehensive Financial Management System

The business maintains 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.

<table>
<thead>
<tr>
<th>DATA POINT</th>
<th>BUSINESS AND PERSONAL FUNDS ARE SEPARATED</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOURCE</td>
<td>BUSINESS ACCOUNTING SYSTEM, SUCH AS QUICKBOOKS, XERO, OR OTHER SYSTEM</td>
</tr>
<tr>
<td>SOURCE</td>
<td>EXISTENCE AND USE OF A BUSINESS CHECKING ACCOUNT AND OTHER BUSINESS ACCOUNTS</td>
</tr>
<tr>
<td>DATA POINT</td>
<td>TIME LAPSE BETWEEN WHEN TRANSACTIONS OCCUR AND WHEN THEY ARE CLASSIFIED FOR BOOKKEEPING AND ANALYSIS</td>
</tr>
<tr>
<td>Caution</td>
<td>1-3 MONTHS</td>
</tr>
<tr>
<td>At Risk</td>
<td>OVER 3 MONTHS</td>
</tr>
<tr>
<td>Good</td>
<td>LESS THAN 1 MONTH</td>
</tr>
<tr>
<td>Caution</td>
<td>PARTIAL SEPARATION</td>
</tr>
<tr>
<td>At Risk</td>
<td>NO BUSINESS ACCOUNTS</td>
</tr>
</tbody>
</table>

**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
- Caution c) Over six months ago
- At Risk d) Over 12 months ago
- At Risk e) Do not have a P&L
PLANS

INDICATOR #4-6
Identifying business risks and ways to mitigate those risks, such as diversifying revenue sources, is essential to building a resilient small business.

### Plans for Significant Business Risks

<table>
<thead>
<tr>
<th>DATA POINT</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completed a business planning session or module</td>
<td><strong>Good</strong> Complete, <strong>Caution</strong> Partially or for a specific risk, <strong>At Risk</strong> Never</td>
</tr>
<tr>
<td>Able to provide a plan for common, applicable business risks</td>
<td><strong>Good</strong> Complete/nearly, <strong>Caution</strong> Partial, only covers some risks or is weak in risk mitigation, <strong>At Risk</strong> Not able to provide</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SOURCE</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business planning resources, such as online modules or in-person coaching or advising sessions</td>
<td></td>
</tr>
<tr>
<td>Provider request for plan covering risks and risk mitigation</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SURVEY QUESTION</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>I have a plan to address common business risks (new competition, loss of key personnel or customer, natural disaster damage, etc.).</td>
<td><strong>Good</strong> a) Strongly agree, b) Somewhat agree, <strong>Caution</strong> c) Somewhat disagree, <strong>At Risk</strong> d) Strongly disagree</td>
</tr>
</tbody>
</table>
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.

**Plans for Cash Flow Variability**

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

### Has Appropriate Insurance

<table>
<thead>
<tr>
<th>DATA POINT</th>
<th>SOURCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proof of insurance relevant for the industry and operation</td>
<td>Insurance provider or provider request</td>
</tr>
<tr>
<td>Good Complete/nearly</td>
<td></td>
</tr>
<tr>
<td>Caution Coverage is partial</td>
<td></td>
</tr>
<tr>
<td>At Risk Not insured</td>
<td></td>
</tr>
<tr>
<td>Payment to insurance carriers</td>
<td>Transactional account(s), such as business checking account used to pay insurance or business accounting system, such as Quickbooks, Xero, or other system</td>
</tr>
<tr>
<td>Good Complete/nearly</td>
<td></td>
</tr>
<tr>
<td>Caution Coverage and/or payment is partial</td>
<td></td>
</tr>
<tr>
<td>At Risk Not insured</td>
<td></td>
</tr>
</tbody>
</table>

### 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
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.

**Indicators**

**Credit score**
- Good
- Prime
- Caution
- Near prime
- At Risk
- Subprime

**Credit capacity on existing lines of credit**
- Depends on the size and type of the business

**Survey Question**

I have access to affordable, timely credit to meet my business needs.
- Good
  - a) Strongly agree
  - b) Somewhat agree
- Caution
  - c) Somewhat disagree
  - d) Strongly disagree
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

**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
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

- **Retained earnings**
  - Depends on the size and type of the business

**SOURCE**

- Business credit score provider
- 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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