



the strategic case for financial health



Financial health comes about when you have a day-to-day system that enables you to **build resilience and thrive financially.**

introduction

For well over two years, the COVID-19 pandemic has taken center stage – globally, nationally, and locally – and its effects have been far-reaching, long-lasting, and often devastating. More than just a physical health crisis, COVID-19 has impacted nearly every area of life, including the economy, and has heightened a financial health crisis that has been growing for years.

Even before the pandemic, the financial landscape in the United States was changing. As technology evolved – seemingly at warp speed – digital banking became the next big thing, and non-traditional financial services providers like big techs and fintechs were suddenly competing with traditional community and regional financial institutions for a piece of the financial services pie.



Based on 2021 data, financial health in America isn't great: while there has been incremental progress in some areas, overall, **a majority of people in the country are struggling financially.**

Then, the economic disruption brought on by the pandemic added fuel to the already-burning fire of a national financial health crisis. Branch shutdowns across the country left consumers scrambling to find alternative ways to conduct their financial business, and with an abundance of financial apps available – offering everything from checking and savings accounts to credit cards and investment services – consumers grew comfortable utilizing multiple sources to meet their changing financial needs.

This rapid and pervasive adoption of digital technology seemed like the perfect way to manage finances in a world where traditional face-to-face banking was temporarily suspended, but it ultimately created an environment of financial fragmentation. Now, with consumers dividing their financial resources between multiple providers, it has become increasingly difficult for them to get a complete and accurate picture of their financial health. And without a clear picture, consumers are unable to make informed decisions, leaving them ill-prepared to properly manage their finances.

Fortunately, the economic upheaval of the past few years has had a positive side effect: it's given people an opportunity to take a long, hard look at their finances – and has sparked a desire to get their financial houses in order. With a new sense of urgency, an understanding of the options available to them, and a need to be financially resilient, consumers have come to expect more from their financial institutions. They want to be prepared should a financial challenge arise in the future. They want to be able to spend, save, borrow, and invest wisely. In other words, they want to be financially healthy. And they want their primary financial institution to help make that happen.

what is financial health?

Broadly speaking, financial health describes the state of an individual's personal monetary affairs. There are many dimensions to financial health, including savings, debt, spending, and financial planning.¹ A financial health business, according to Jennifer Tescher, President and CEO of Financial Health Network, is one that drives bottom-line success by helping accountholders improve their financial health.²



As of May 2021, a staggering **66% of individuals in the U.S. were not financially healthy.**

Tescher founded Financial Health Network in 2004 to explore ways to use technological changes in financial services to benefit those who need it most. The organization has a growing membership network of more than 160 companies and organizations that support its mission of uniting business leaders, policymakers, and innovators to design and implement solutions that improve financial health for all people.³

Tescher identifies three important facts about financial health:

1. The term “financial health” is not an abstract, unclassifiable concept. It has a definition: Financial health comes about when you have a day-to-day system that enables you to build resilience and thrive financially.⁴ This applies to your financial institution, and also to your accountholders.
2. For community and regional financial institutions engaged in a financial health business, financial health can be measured quantitatively and tracked over time as a key performance indicator (KPI).
3. By measuring and tracking the financial health of accountholders, financial institutions can address, unlock, and improve several key business metrics, including retention, engagement, and cross-sell.

Developing and implementing strategies to guide the financial well-being efforts of their accountholders is one way banks and credit unions can address and help mitigate the financial health crisis in their own communities. It’s a huge opportunity to stand out in a crowded financial services market – especially as fintechs and other non-traditional providers boldly invade territory that once belonged solely to the community bank or credit union down the street.

industry disruption + digital transformation = financial fragmentation

The way that people prefer to handle their financial transactions is changing dramatically. Today’s consumers want more from financial institutions than just checking and savings accounts. They’re looking for investing, budgeting, planning,



80% of consumers want their financial institution to help them improve their financial health, but **only 14%** feel that their credit union or bank is actually helping.

and other specialized financial services, and if those services aren't provided by their primary financial institution, they don't hesitate to look elsewhere for financial solutions. For many consumers – especially the younger generation – “elsewhere” often means individual financial provider apps.

A recent Javelin report shows that non-banks now provide 65% percent of financial relationships for millennial consumers (those born from 1981–1996) and 69% for Gen Z consumers (those born from 1997–2012). Additionally, a large number of consumers get their financial services from many different providers – both traditional and non-traditional financial institutions. It's not uncommon for a consumer to use between 20 and 30 different financial applications and services.⁵ In fact, the percentage of U.S. consumers using fintech rose from 58% in 2020 to 88% just a year later, in 2021.⁶

This digital transformation that's occurring in the banking and financial industry has brought speed, convenience, and efficiency into the lives of consumers across the globe. But the unrestrained use of digital apps and services has created fragmentation in consumers' financial lives. When the pieces of an individual's financial life are scattered among so many different sources, there is no longer one source of the truth for their financial lives – and it becomes difficult for individuals to get a complete, accurate picture of their finances. Without a clear, comprehensive financial picture, many consumers find it difficult to make good financial decisions⁷, which can negatively affect their overall financial health.

Community and regional financial institutions must embrace the digital transformation occurring in the financial industry to remain relevant and compete successfully with non-traditional counterparts. They must also look for any consumer pain points that new technology creates – and capitalize on opportunities to provide innovative solutions. When it comes to financial fragmentation, community and regional financial institutions have a unique opportunity to do something that big techs, fintechs, and megabanks can't: leverage their personal relationships with accountholders to provide customized resources and services.



Financially healthy people are **better, more loyal, and more profitable consumers.**

For financial institutions to successfully provide accountholders with customized solutions, they must first identify and understand accountholders' needs. And that process begins with measurement.

measuring financial health

Data aggregation enables consumers to see the truth of their financial lives in one place – and community and regional financial institutions should be the central source for measuring, assessing, and delivering that financial truth to their accountholders.

Financial institutions often use the Net Promoter Score (NPS) to gauge the level of satisfaction of their accountholders. But an NPS score isn't necessarily a good indicator of financial health because it doesn't ask the right questions. In an NPS survey, participants rate their level of satisfaction with an institution, its products, or its customer service. But assessing financial health requires more than that.

Financial health considers the totality of an individual's financial life: whether they are spending, saving, borrowing, and planning in ways that will enable them to be resilient and pursue opportunities. That's why the FinHealth Score[®] is a more accurate measurement of financial health.⁸

Developed by Financial Health Network, the FinHealth Score is a metric that uses survey questions to assess financial health. The survey questions align with eight indicators of financial health across four categories: Spend, Save, Borrow, and Plan.

Spend

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

Save

- Have sufficient liquid savings.
- Have sufficient long-term savings.



Vulnerable (a score from 0 – 39) indicates that an individual is having significant challenges in nearly all of the financial health indicators; **Coping** (a score from 40 – 79) indicates that an individual is doing well in some, but not all, of the financial health indicators; and **Healthy** (a score from 80 – 100) indicates that an individual is doing well across all eight financial health indicators.

Borrow

- Have manageable debt.
- Have a prime credit score.

Plan

- Have appropriate insurance.
- Plan ahead financially.

An aggregate FinHealth Score and four subscores (spend, save, borrow, and plan) are calculated for individuals who answer all eight survey questions. Answers to the questions result in a score between zero and 100, and results are broken down into three categories: Vulnerable (a score from 0 – 39) indicates that an individual is having significant challenges in nearly all of the financial health indicators; Coping (a score from 40 – 79) indicates that an individual is doing well in some, but not all, of the financial health indicators; and Healthy (a score from 80 – 100) indicates that an individual is doing well across all eight financial health indicators.⁹

the not-so-pretty picture of financial health in the united states

To check the “pulse” of financial health in America, Financial Health Network uses their data platform, the U.S. Financial Health Pulse[®], to survey a nationally representative sample of American adults.¹⁰ And based on 2021 data, financial health in America isn’t great: while there has been incremental progress in some areas, overall, a majority of people in the country are struggling financially.

Over the past two years, there has been steady growth in the percentage of people considered financially healthy and a steady reduction in the percentage of people considered financially vulnerable. The good news is that, as of May 2021, more than 34% of individuals in the U.S. – or 86 million people – were considered financially healthy, up from 32% in 2020.



As financial first responders, community and regional financial institutions have an opportunity to address the financial crisis as a whole, and more specifically, **close the racial and gender gaps in financial health that their accountholders face.**

However, that means there's also some not-so-good news: As of May 2021, a staggering 66% of individuals in the U.S. were not financially healthy. Fifty-two percent (131 million people) were coping and 14% (35 million people) were vulnerable – meaning that the majority of Americans struggled to spend, save, borrow, or plan in ways that would allow them to recover successfully from challenges or take advantage of opportunities to improve their circumstances.¹¹ Moreover, 39% of Americans lacked three months of savings, 25% had unmanageable debt, and 39% did not plan ahead financially.¹²

The Pulse survey results also show that not only are many Americans struggling financially, but there are extensive gender and racial disparities among those who report being financially healthy. In 2021, 43% of men were healthy, compared to 26% of women. And in terms of race, 46% of Asian Americans and 39% of white Americans were healthy, compared to 24% of Latinx and 21% of Black Americans.¹³

As people continue to rebuild their financial lives in the wake of economic upheaval, community and regional financial institutions have an opportunity to step up and lead their accountholders on the path to financial wellness. To best support accountholders in their moments of need, financial institutions must have a financial health strategy in place, and the technology and capabilities to support it.

making the financial health of your accountholders a priority

Community and regional financial institutions are rooted in relationship banking. They're skilled at forming deep, personal connections with accountholders to assess their individual circumstances, anticipate their needs, and provide services to help improve their financial well-being. And as financial first responders, community and regional financial institutions have an opportunity to address the financial crisis as a whole, and more specifically, close the racial and gender gaps in financial health that their accountholders face.



Community and regional financial institutions are rooted in **relationship banking.**

In times of financial difficulty, your accountholders reach out to you for solutions. When they do, your primary responsibility is to be there in moments of need to provide them with the education, resources, and tools that build financial stability.

According to Plaid, an organization focused on democratizing financial services through technology, financial health is an untapped opportunity for financial institutions. A 2021 Plaid article notes that consumers are moving to financial services providers that help them make smart choices with their money. This is shown by the rapid growth of Chime, a digital bank that offers financial health-related services including fee-free overdrafts, early paycheck access, and help with building credit history and growing savings.¹⁴ A 2020 Accenture study also supports the idea that consumers want help managing their money, finding that 61% of consumers (up from 53% in 2018) would welcome budget information based on their monthly spending.¹⁵

In its Financial Health Pulse: 2020 U.S. Trends Report, Financial Health Network found that 80% of consumers want their financial institution to help them improve their financial health, but only 14% feel that their credit union or bank is actually helping. Similarly, Accenture found that in 2020, only 29% of consumers trusted their financial institution “a lot” to look after their financial well-being, down from 43% just two years prior, in 2018.¹⁶ That’s a significant gap between what consumers expect and what they’re getting – and it represents a huge opportunity for community and regional financial institutions to create innovative, specialized products and services to bridge that gap.

When your accountholders are financially healthy, it’s not just good for them. It’s good for you, too. Financially healthy people are better, more loyal, and more profitable consumers. They’re three times more likely to recommend their financial institution to friends and family, two times more likely to continue their relationship over the next five years, and five times more likely to be interested in buying additional products and services.¹⁷

sources

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leading your accountholders into a financially healthy future

In the wake of the monumental disruption and digital transformation occurring in the financial services industry, consumers are making their financial health a priority – and they're looking to their community and regional financial institutions for help and support.

To best serve your accountholders in their moments of need, your institution should have a solid financial health strategy in place. And while creating and executing an effective financial health strategy takes time, effort, and resources, you don't have to figure it out on your own. Jack Henry™, a trusted and well-rounded financial technology provider focused on removing the barriers to financial health, can help streamline and simplify the process so you can focus on what matters most: empowering your accountholders to become financially healthy.

create limitless possibilities

[Learn how](#) Jack Henry's technology and solutions can help you implement a financial health strategy.

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