# PRINCIPLES FOR RESPONSIBLE BANKING

Welcome! We'll get started shortly

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# Target setting on financial health and inclusion Workshop 2

June 2023



### **Our partners**

**Global Sponsor** 





### Agenda of the session

Welcome back - 10 min

Collective feedback from practical exercise - 10 min

Steps for financial health and inclusion target setting – 30 min

Step 4. Determine measures and actions (action plan)

**Step 5**. Define key indicators (reporting)

Practical group activity on Miro - 20 min

Next steps and closing remarks - 5 min

### **ABC of our program**

**Why?** Once your bank has completed the <u>impact analysis</u> and defined financial health and/ or inclusion as one of the areas of greatest impact, the next key step in applying the Principles for Responsible Banking (RBP) will be to set an impact target.

**For what?** Our goal is to support banks that have signed the PBRs to set their financial health and inclusion targets and align their businesses with the Sustainable Development Goals.

**For whom?** Staff of banks signatories of the PBRs, members of the inclusion and financial health teams of the banks, members of the sustainability teams.

How? Online sessions through <u>Microsoft Teams</u> and <u>"walk-ins"</u> between deliveries to answer questions.

Agenda3	Date
Session 1 - Introduction   (2hs)	February 2023
Walk-ins	February and March 2023
Delivery practical exercise 1	March 2023
Offline feedback from exercise 1	April 2023
Walk-ins	June 2023
Delivery of practical exercise 2	May 2023
Individual sessions   One by One	May – June 2023
Session 2 – Collective feedback   (2hs)	15 and 27 June 2023

### What can you expect from our session today?

Participating banks will be able to:

- Identify good practices when completing stages 1-3 (based on the practical exercise).
- Understand the basis for **building a robust action plan**.
- Learn to define the key performance indicators against which progress towards SMART targets should be reported.

Understand the context of the country



#### **Good practices**

- Even with the expectation of limited data, banks managed to gather a robust amount of information to map their country's profile, choose their priority groups and areas of work.
- Several banks have been able to find data on financial behaviors and other complementary areas that are also important for the characterization of the initial context.
- Analyzing societal problems such as over-indebtedness.

#### **Lessons learned**

- Most banks do not cover varied businesses (e.g. SMEs and MSMEs, investments, insurance), and tend to cover mostly savings account data. Don't cover just savings accounts!
- In some cases, data collected was not consistent with the group selected to prioritize, which misaligns with targets set from the priorities of the context.
- In some cases, there could be more segmentation in the data by ethnicity, location or age, according to identified vulnerable groups.
- It is important to establish a multidisciplinary work team in the bank if this area has been prioritized

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#### Lessons learned

- Many of the banks were successful in covering indicators for all levels of the theory of change.
- The more components of the theory of change are measured at baseline, the easier it will be to complete the stages that follow.

#### **Good practices**

- Even when the focus is on financial inclusion, banks should also include financial health, for example in the form of a negative impact, as this is important to measure, as part of sustainable financial inclusion
- In some cases banks have not set indicators to evaluate implemented programs, which is essential to know how successful are the efforts.
- Put together an internal multidisciplinary work team.
- A robust context analysis help to identify indicators that the bank must measure for its own performance we should not limit ourselves to the Excel list.
- Always double check to understand why a core indicator looks the way it does

2 Set baselines and identify priorities



Step 5 - Defining KPIs

2 Set baselines and identify priorities



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#### **Good practices**

To complete the baseline, it is important to align the entire team regarding definitions of the indicators to be measured, especially on the below:

- Effective access: access after first use
- Active: use at least once a month or with the intended periodicity of the product / service
- Regularly: at least 4 months in a year, shows regularity in negative behavior such as overdraft

Link: 20220919\_FINHEALTH-WG\_DATABASE-AND-CORE-SET\_FV-2.xlsx (live.com)





### **Good practices**

 In case of not having a defined target yet, it is good to establish and monitor financial health/well-being indicators, in order to understand the correlation of financial inclusion actions.

#### **Lessons learned**

- If there are no targets at country level, check if there are similar countries, try to make your target match the best possible way .
- An overarching target can be set covering all prioritized groups but when reporting, progress must be shown for each prioritized group how your bank is closing the gaps for them
- Take into account all your product portfolio and categorize products to better understand participation of each prioritized group in your portfolio

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Set SMART targets



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#### **Inclusion targets**

- Impact targets to 2025-2026 with progressive targets for 2023 and 2024 + monitoring of financial health indicators to avoid negative impacts.
- Sub-targets for each product/service category starting from baseline, i.e., we have an overarching target about how full financial inclusion of the prioritized group should look like, and sub-targets by product category that will help to achieve the overarching target.
- Sub-targets usually concern supply/demand/rejections of products that are relevant for greater financial health in the target group. This is why it is important to analyze rejection rates, participation in products from other categories, etc.
- A very important sub-target is banking the un-banked and this must be in line with the national targets and the bank's market share.







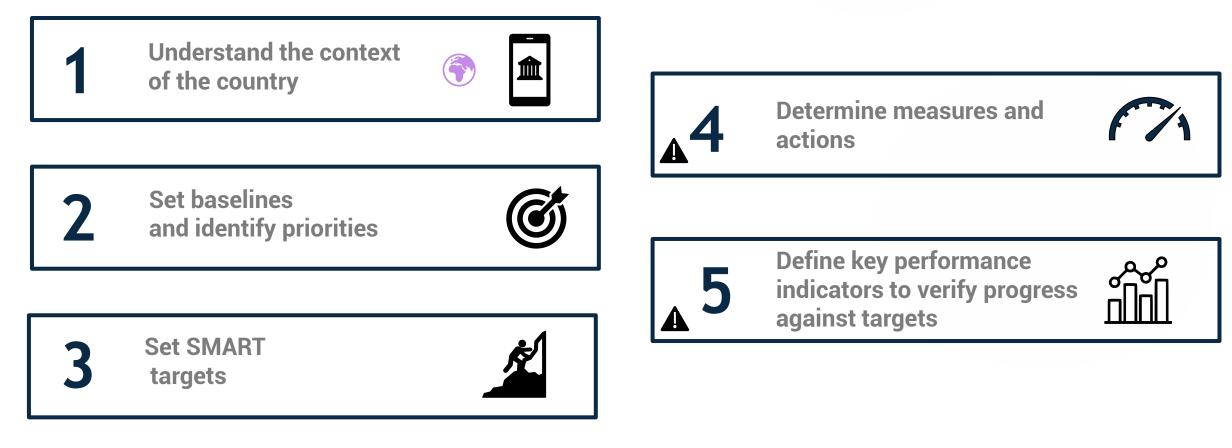
#### **Financial Health targets**

- Impact target to 2030. If it is not holistic (i.e., measuring all components of financial health), it is recommended that the target addresses financial resilience, given current macroeconomic conditions.
- Sub-target suggested in indicators that measure savings habits: over-indebtedness (overdue credits or non-performing loans), access to products of other categories for customers who already have savings habits, among others. Another important sub-target is inclusion for banks in countries that still have gaps.
- It is important to identify whether the bank's product portfolio has products aimed at encouraging savings and financial resilience to cover emergencies.

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### **Questions and comments**





This topic has a region-specific element

**A** This item may change with the PRB2030 project

Collective feedback

Exercise and next steps





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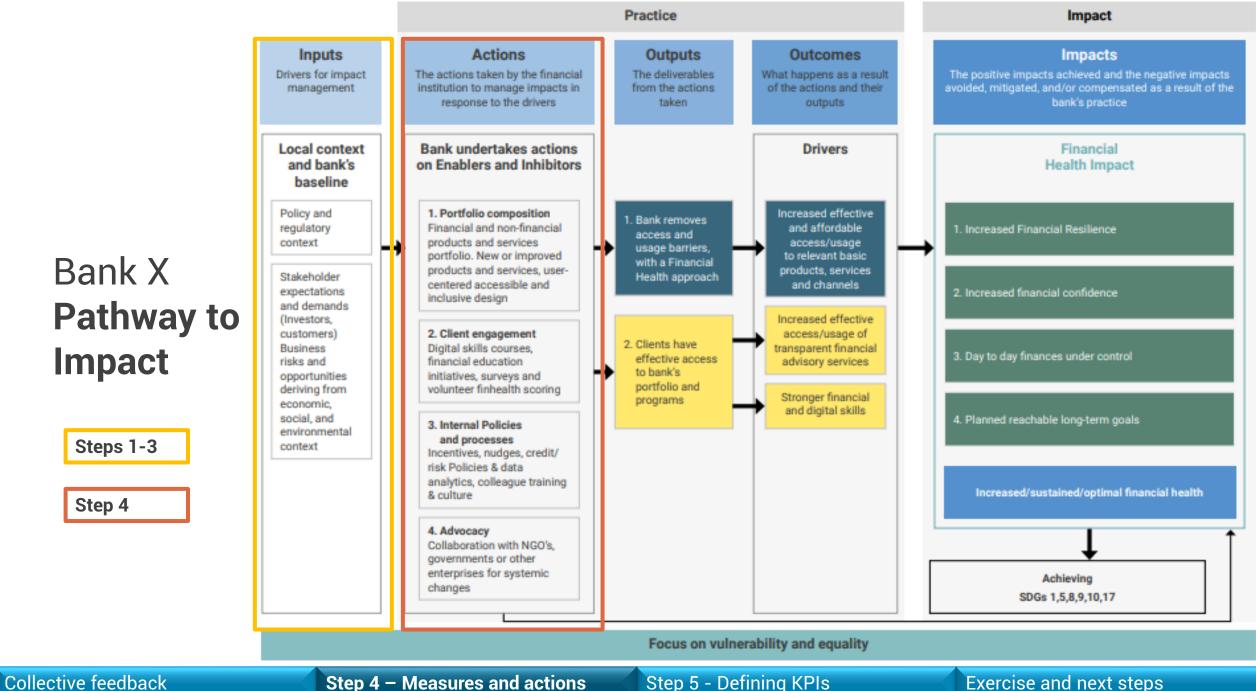
### Determine Measures and actions

How? Through an action plan.

#### What is an action plan?

An action plan is the roadmap that indicates the type of actions that the bank will take and the results that these actions should have in the short, medium and long term to ensure that the bank will eventually deliver the desired impact or target that it has set.

Simply put, it is completing the **theory of change** for the bank.



Bank X Pathway to Impact

Step 4

Steps 1-3

### Determine Measures and actions

What are the main components of a robust action plan?

- 1. A clear final target (sometimes accompanied by subtargets that disaggregate the final targets in order to increase the effectiveness of the plan).
- 2. Clearly defined and measurable results in the short, medium and long term.
- **3. Specific actions** that are consistent with the context analysis and the baseline and are aimed at achieving clear results.

### Determine Measures and actions

#### **1. A clear final target**

This is the result of Step 3. It is your impact target and sub-targets that you created when the impact target was disaggregated. If you have not disaggregated your impact target, we recommend doing so.

<u>For example:</u> If I want to increase the financial health of my clients, I must have sub-targets in each of the components against which I measured in my financial health indicator (resilience, confidence, planning, day-to-day management).

Additionally, think about whether there are progressive targets (for instance: Year 1 we must achieve X, Year 2 we must achieve Y, etc.)

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#### 2. Clearly defined and measurable results



As we are creating the bank's theory of change, the results that the actions must generate are the outputs (short term) and outcomes (medium and long term).

You already have the indicators from your baseline and you know their initial values. Now ask yourself:

- On which "outcomes" do sub-targets depend?
- Which value does this outcome indicator need to reach in order deliver my sub-targets and target? Are there progressive values (year1, year2, etc)?
- Am I losing sight of outcome indicators that make it easier for me to achieve my sub-target? (if so, I have to define and measure it before continuing)
- On which "outputs" do these "outcomes" depend? ۲
- Which value does this output indicator needs to reach so that I can reach the value I need in the outcome indicator it connects to? Are there progressive values (year1, year2, etc)?
- Am I losing sight of output indicators that make it easier for me to achieve • my outcome? (if so, I have to define and measure it before continuing)

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### Determine Measures and actions

**ProTip 1:** With progressive values for targets, sub-targets, outcomes and outputs you can generate a clearer timeline of which actions have to happen in each year.

NOTE: In our workshop we will not go into that detail.

		Practice			Impact	
	Inputs Drivers for impact management	Actions The actions taken by the financial institution to manage impacts in response to the drivers	Outputs The deliverables from the actions taken	Outcomes What happens as a result of the actions and their outputs	The positive impacts ad avoided, mitigated, and/	mpacts chieved and the negative impacts or compensated as a result of the nk's practice
<section-header><section-header><section-header><section-header><text></text></section-header></section-header></section-header></section-header>	Local context and bank's baseline Policy and regulatory context Stakeholder expectations and demands (Investors, customers) Business risks and opportunities deriving from economic, social, and environmental context	<ul> <li>Bank undertakes actions on Enablers and Inhibitors</li> <li>1. Portfolio composition Financial and non-financial products and services portfolio. New or improved products and services, user-centered accessible and inclusive design</li> <li>2. Client engagement Digital skills courses, financial education initiatives, surveys and volunteer finhealth scoring</li> <li>3. Internal Policies and processes Incentives, nudges, credit/risk Policies &amp; data analytics, colleague training &amp; culture</li> <li>4. Advocacy Collaboration with NGO's, governments or other enterprises for systemic changes</li> </ul>	Increase the # of new customers per month access and Increase the % of customers with effective access to a basic banking product 2. Clients have effective access to bank's perfolio and Increase the # of people (customers and employees) supported with financial/digital education initiatives	DriversIncrease the % of customers who actively use digital and mobile platformsIncrease the % of clients successfully advised on the improvement of their financial conditionsIncrease the % of customers showing an increase or stable amounts in savings, deposit or investment account balancesDecrease the % of customers with non- performing loansIncrease the % of people with a good and/or very good level of financial skills		<ul> <li>Inancial Inh Impact</li> <li>Decrease or maintain % of customers who would have difficulty in raising emergency funds or in covering with insurances an unexpected high expense</li> <li>Increase or maintain % of customers with products related to long-term savings and investment plans</li> <li>Increase or maintain % of customers who feel confident about their financial situation in the next 12 months</li> <li>Decrease or maintain % of customers whose spending exceeded 90% of entries for more than 6 months last year</li> </ul>

Focus on vulnerability and equality

Collective feedback

Step 4 – Measures and actions

Step 5 - Defining KPIs

Exercise and next steps



#### **3. Specific Actions**

You should determine the actions to be carried out once you understand :

- the results that should be achieved to deliver the target
- the baseline of these elements
- the country context in which the bank operates

The question you must ask yourselves is: What do I need in order to achieve each of the short-term outputs that generate the medium-term outcomes?

Have in mind that several needs can be met with a single action. Ex: a financial education program can address the need for more educated people, more banked people, and more people with effective access to basic financial products. Furthermore, it also helps with behavioral changes, strengthening skills and getting more people to use the bank's dedicated advisory services. Instead of creating an action for each of those elements, it is possible to create one to cover all.

#### Practice Impact Actions Inputs Outputs Outcomes Impacts Drivers for impact The actions taken by the financial The deliverables What happens as a result The positive impacts achieved and the negative impacts institution to manage impacts in of the actions and their avoided, mitigated, and/or compensated as a result of the management from the actions response to the drivers taken. outputs Local context Bank undertakes actions Drivers Financial and bank's on Enablers and Inhibitors Health Impact Increase the % of Increase to 40% the baseline Increase the # of customers who actively Decrease or maintain % of customers with 2 or new customers use digital and mobile customers who would more active financial Policy and per month platforms have difficulty in raising products of different regulatory emergency funds or in categories without context Increase the % of clients covering with insurances generating negative line with the an unexpected high successfully advised on Increase the % impacts on the the improvement of Stakeholder of customers expense financial health of with effective their financial ToC expectations those customers conditions access to a Increase or maintain % of and demands (Investors. basic banking customers with products To this end, the Increase the % of customers) related to long-term Partner with Bank following sub-targets customers showing an Business savings and investment Aflatoun for the are available: risks and increase or stable plans delivery of opportunities amounts in savings, • Increase to 30% deposit or investment deriving from Increase or maintain % of the participation of economic, Increase the # of account balances customers who feel clients of the programs to social, and people confident about their prioritized group in environmental (customers and financial situation in the debt products a employees) context next 12 months Decrease the % of Increase to 50% supported with customers with nonthe participation in Create and financial/digital Decrease or maintain % of performing loans investment education customers whose Target and products or initiatives spending exceeded 90% of Increase the % of people programmed sub-targets entries for more than 6 savings with a good and/or very 4. Ac months last year Achieve a critical good level of financial Progressiv mass in banked skills e results individuals. in line with national goals chan

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Monitor

Step 4 – Measures and actions

Step 5 - Defining KPIs

Exercise and next steps

### Determine Measures and actions

**Protip 2:** If you do not know the needs, then you must investigate, survey, or search transactional data to respond to the existing gaps (it also applies to the sub-targets). Therefore, the more complete the baseline, the easier it will be to build the action plan.

**ProTip 3:** Be clear about progressive targets because not all actions can be completed in year 1.

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Actions should address several needs at the same time in order to increase their level of effectiveness.

Remember that the actions that the bank can take are grouped into 4 categories and eventually the bank has to have actions in all 4 categories:

- Portfolio composition
- Customer engagement
- Improved internal policies and processes
- Corporate citizenship, alliances and partnerships

#### **Portfolio composition**

## Determine Measures and actions

Reconfigure or develop products and services aimed at prioritized groups that do generate the desired results

Create platforms that meet the specific needs of specific groups, such as underbanked groups, entrepreneurs or the rural population Create digital solutions that improve motivation, skills and digital access

#### **Client engagement**

Develop educational programs, informational material and digital and/or financial advice

Have financial health measurement tools that customers can use at any time and that give them recommendations for improvement Allow customers to test their financial knowledge with surveys or games with recommendations

#### Improved internal policies and processes

Improve the methodology for credit risk and over-indebtedness risk analysis	Incorporate early warning systems linked to financial behaviors that harm financial health
Improve the remuneration strategies of commercial teams so that they are linked to the improvement of the financial health of the clients	Improve risk models and behavior anticipation with transactional and/or survey data

#### **Corporate citizenship, alliances and partnerships**

Support the government in developing policies or regulations that promote financial inclusion and health ans set clear targets and roles

Hire third parties with missions and purposes aligned with those of the bank and who are able to report on impact indicators

Alliances between banks, fintechs, NGOs and other organizations that participate in the financial life of people and companies and that help amplify the positive impact

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### Library of Initiatives

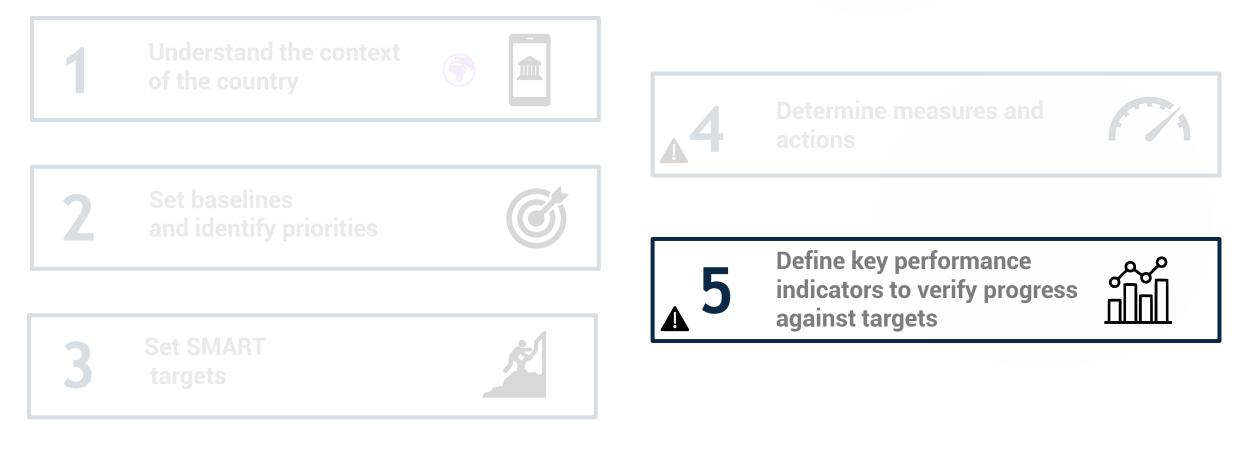
Looking for inspiration? Remember that you can access the library of initiatives on the financial health and inclusion microsite.

To access and download the latest version of the database, click <u>here.</u>

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### **Questions and comments**





This topic has a region-specific element

**A** This item may change with the PRB2030 project

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### Defining key performance indicators

When you have the target and a clear action plan, then the implementation and reporting process starts.

For the fulfillment of the report, under the Principles for Responsible Banking, the bank must report:

- Baseline of key indicators used to set targets and sub-targets
- Progress towards the deliver of targets and sub-targets through key performance indicators (KPIs) and milestones achieved in these indicators
- To understand the effectiveness of the bank in its progress, it is good practice to reveal the starting point of the KPI, whenever possible

### Defining key performance indicators

#### But how to define KPIs?

These indicators is what will show that the bank is on track to deliver its targets and sub-targets. Simply put, it is **the short- and medium-term indicators** that are critical for the bank's targets to be achieved.

#### Should I set targets for KPIs?

Of course! Especially the short-term ones because these will determine whether you will achieve the medium-term results. For example, if we do not achieve a critical mass of banked individuals, we will not achieve the targets of effective access and then access to a second product. This is what is known as *Milestones*.

### Defining key performance indicators

#### **Set a target in Financial Inclusion?**

As financial inclusion is a means to an end, a good practice is to monitor financial health indicators to make sure your bank is not generating a negative impact.

For example, if you want to increase access to loans then monitor NPLs, arrears, overdrafts, and severely diminished saving capacity. These are all indicators that the loan is actually generating financial distress.

#### Practice Impact Actions Inputs Outputs Outcomes Impacts Drivers for impact The actions taken by the financial The deliverables What happens as a result The positive impacts achieved and the negative impacts institution to manage impacts in of the actions and their avoided, mitigated, and/or compensated as a result of the management from the actions response to the drivers taken. outputs Local context Bank undertakes actions Drivers Financial and bank's on Enablers and Inhibitors Health Impact Increase the % of baseline Increase to 40% the Increase the # of customers who actively Decrease or maintain % of customers with 2 or new customers use digital and mobile customers who would more active financial Policy and per month platforms have difficulty in raising products of different regulatory emergency funds or in categories without context Increase the % of clients covering with insurances generating negative line with the an unexpected high successfully advised on Increase the % impacts on the the improvement of Stakeholder of customers expense financial health of with effective their financial ToC expectations those customers access to a conditions Increase or maintain % of and demands (Investors. basic banking customers with products To this end, the Increase the % of customers) related to long-term Partner with following sub-targets Bank customers showing an Business savings and investment Aflatoun for the are available: risks and increase or stable plans delivery of opportunities amounts in savings, • Increase to 30% deposit or investment deriving from Increase or maintain % of the participation of economic, Increase the # of account balances customers who feel clients of the programs to social, and people confident about their prioritized group in environmental (customers and financial situation in the debt products a context employees) next 12 months Decrease the % of Increase to 50% supported with customers with nonthe participation in Create and financial/digital Decrease or maintain % of performing loans investment education customers whose Target and products or initiatives spending exceeded 90% of Increase the % of people programmed sub-targets entries for more than 6 savings with a good and/or very 4. Ac Achieve a critical months last year good level of financial Progressiv mass in banked skills e results individuals. in line with national goals

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KPIs

Monitor

Step 4 – Measures and actions

Step 5 - Defining KPIs

Exercise and next steps

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### **Questions and comments**

## After completing the exercise

- Which key internal stakeholders do you believe you should involve in the work from the very beginning to facilitate steps 1-5?
- What is your main takeaway from the exercise
- Questions that arose from the process?



# We hope that the learning objectives have been met

- ✓ **Identify good practices** when completing stages 1-3
- ✓ Understand the basis for **building a robust action plan**.
- ✓ Learn to define the key performance indicators against which progress towards SMART targets should be reported.



## Before you go

We always want to deliver valuable content in a way that is efficient and practical. Thus, understanding how you felt about this workshop is very important to improve our capacity-building process.

May you help us? https://forms.office.com/e/9N1JpmAc9f



# Contact

Laura Diaz Zea PRB Implementation Support Coordinator Financial Health and Inclusion Lead Banking Team UNEP FI Laura.diazzea@un.org

