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Principles for
Responsible Banking

PRINCIPLES FOR RESPONSIBLE BANKING

Welcome! We'll get started shortly

A close-up photograph of a person's hands holding a 500 Euro banknote and several Euro coins. The person is wearing a white long-sleeved shirt and a black watch. The background is a blurred green wall. A dark teal diagonal overlay is present on the left side of the image.

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Principles for
Responsible Banking

Target setting on financial health and inclusion Workshop 2

June 2023

Our partners

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MINISTERO DELLA
TRANSIZIONE ECOLOGICA

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 impact analysis 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 Microsoft Teams and "walk-ins" 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.

Lessons learned and good practices

Steps 1-3

1

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.
- 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

Lessons learned and good practices

Steps 1-3

2 Set baselines and identify priorities



Good practices

- 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.

Lessons learned

- 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

Lessons learned and good practices

Steps 1-3

2 Set baselines and identify priorities



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 \(live.com\)](#)

Lessons learned and good practices

Steps 1-3

3

Set SMART targets



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

Lessons learned and good practices

Steps 1-3

3

Set SMART targets



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.

Lessons learned and good practices

Steps 1-3

3

Set SMART targets



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.

Questions and comments

1 Understand the context
of the country



2 Set baselines
and identify priorities



3 Set SMART
targets



4 Determine measures and
actions



5 Define key performance
indicators to verify progress
against targets



This topic has a region-specific element



This item may change with the PRB2030 project

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Determine Measures and actions

How?

Through an **action plan**.

What is an action plan?

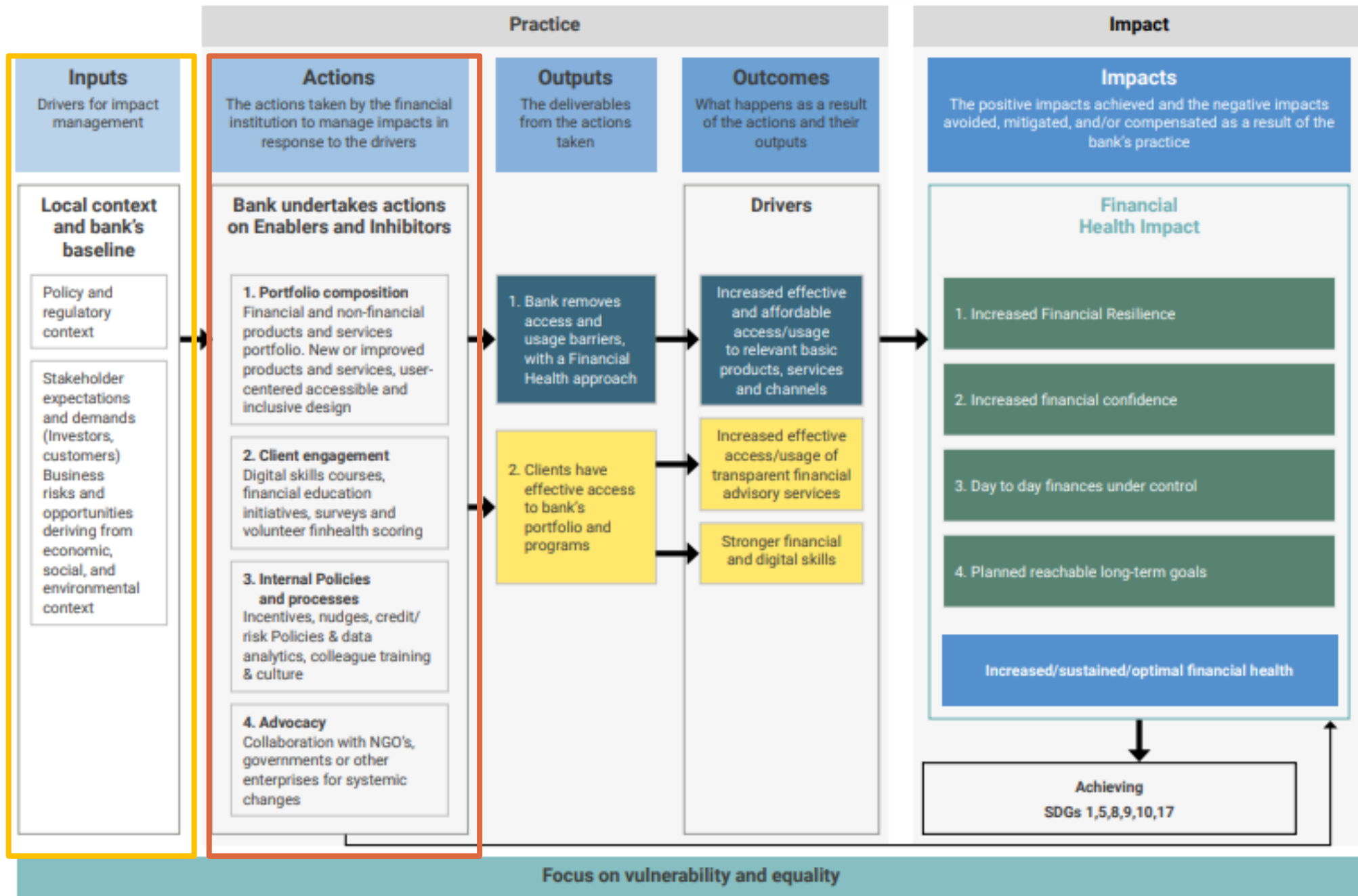
An action plan is the roadmap that indicates the type of actions that the bank will take and the results that these actions should have in the short, medium and long term to ensure that the bank will eventually deliver the desired impact or target that it has set.

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

Bank X Pathway to Impact

Steps 1-3

Step 4



Collective feedback

Step 4 – Measures and actions

Step 5 - Defining KPIs

Exercise and next steps

Determine Measures and actions

What are the main components of a robust action plan?

1. **A clear final target** (sometimes accompanied by sub-targets 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.

For example: 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.)

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:

Determine Measures and actions

- 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?
- 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)

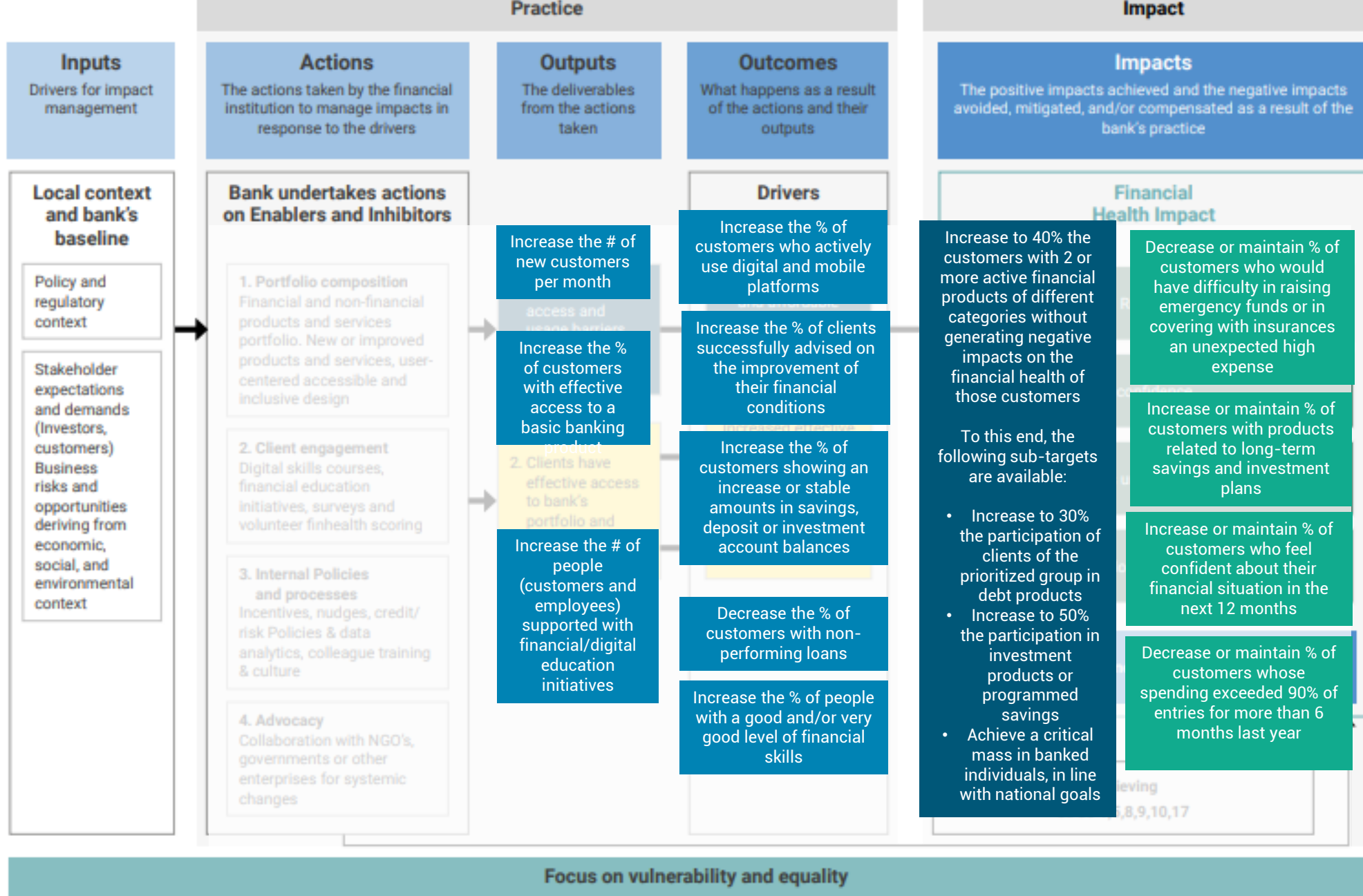
Determine Measures and actions

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.

ToC Bank

- Monitor
- Target and sub-targets
- Progressive results



Determine Measures and actions

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

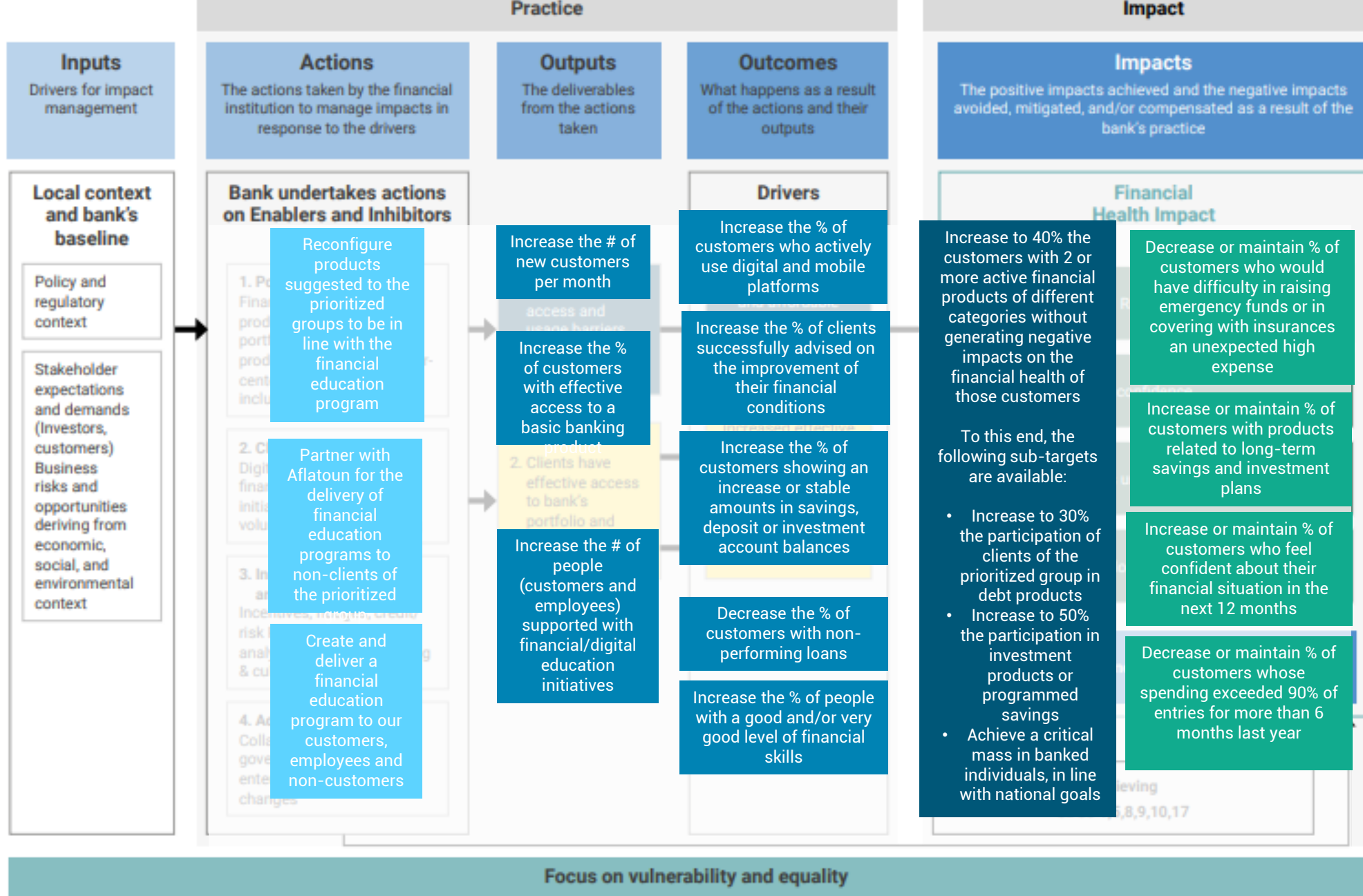
The question you must ask yourselves is: *What do I need in order to achieve each of the short-term outputs that generate the medium-term outcomes?*

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.

ToC Bank

- Monitor
- Target and sub-targets
- Progressive results
- Specific actions



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.

Determine Measures and actions

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

Determine Measures and actions

Portfolio composition

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

Create digital solutions that improve motivation, skills and digital access

Create platforms that meet the specific needs of specific groups, such as underbanked groups, entrepreneurs or the rural population

Determine Measures and actions

Client engagement

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

Allow customers to test their financial knowledge with surveys or games with recommendations

Have financial health measurement tools that customers can use at any time and that give them recommendations for improvement

Determine Measures and actions

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

Determine Measures and actions

Corporate citizenship, alliances and partnerships

Support the government in developing policies or regulations that promote financial inclusion and health and 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

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 [here](#).

Questions and comments

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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***.

ToC Bank

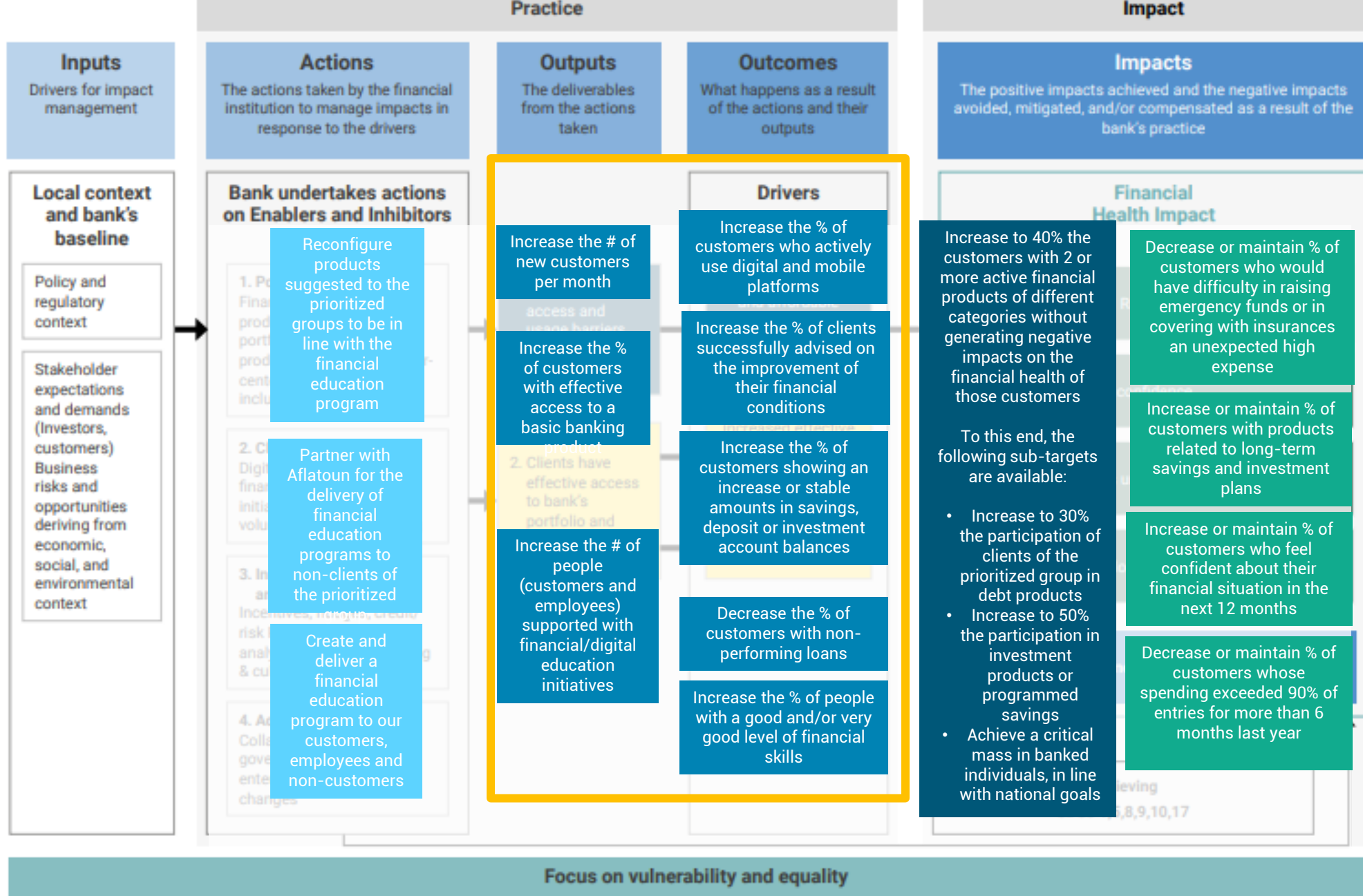
KPIs

Monitor

Target and sub-targets

Progressive results

Specific actions



Questions and comments

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>



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