



# Financial health

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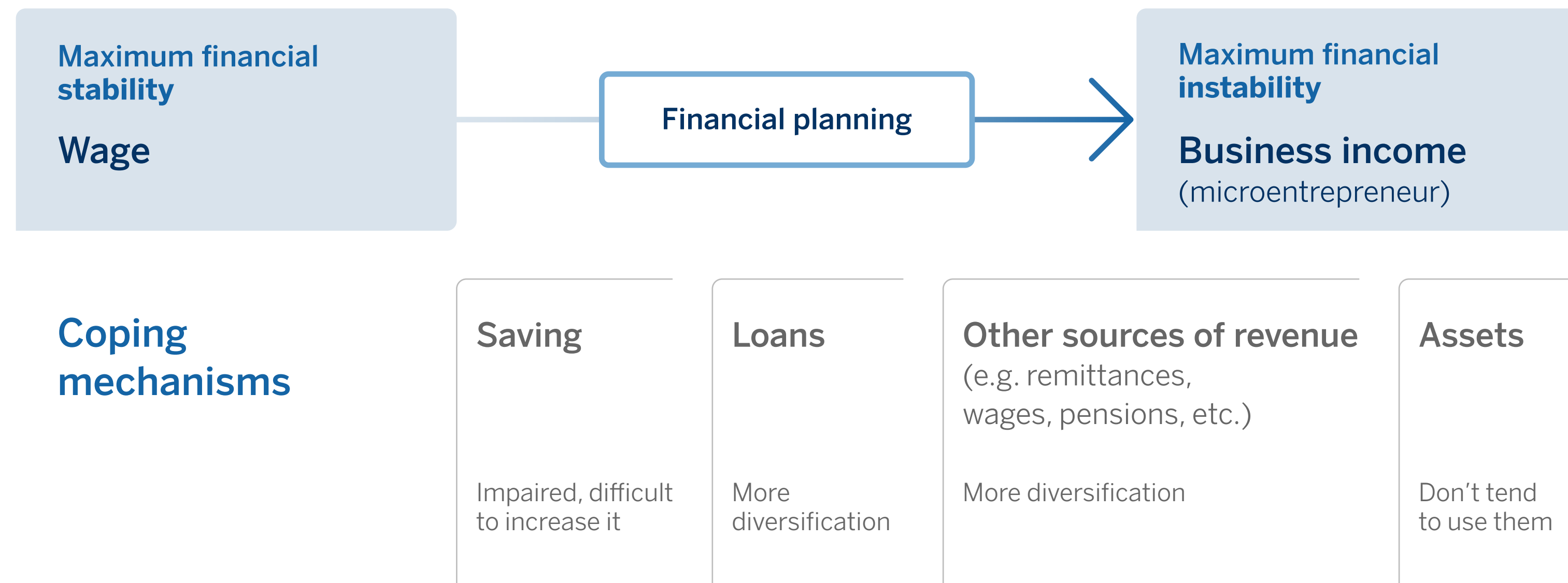
# Financial health

## Introduction

In the absence of social systems to deal with contingencies such as the illness of a family member or the need to pay for home repairs, and when medium-term economic planning is not in place, imbalances are generated that can negatively impact business and household capacity, slowing down or paralyzing their progress. Domestic financial management is a central tool in dealing with unexpected expenses and for recovering them with one's own resources, as well as for the progress of household members. We understand financial health as the capacity of households to manage their finances today and to anticipate future eventualities in order to cope with them. This becomes particularly important in vulnerable communities, since they are more likely to be affected, and helped, by access to and appropriate use of financial products.

To tackle this, we have identified four ways of coping with income instability: saving, loans, other sources of income and the sale of assets. Insurance was not perceived by entrepreneurs as a protection mechanism when they were asked about it.

### Household financial strategies





Savings and insurance are products that have been specially adapted to mitigate risks and encourage sound financial health. These products are an essential part of our value offering, as they help entrepreneurs to increase their resilience and reduce their vulnerability to adverse impacts.

For this reason, the ability to manage the family’s assets will be an area of research which we will shortly be working on in some depth.

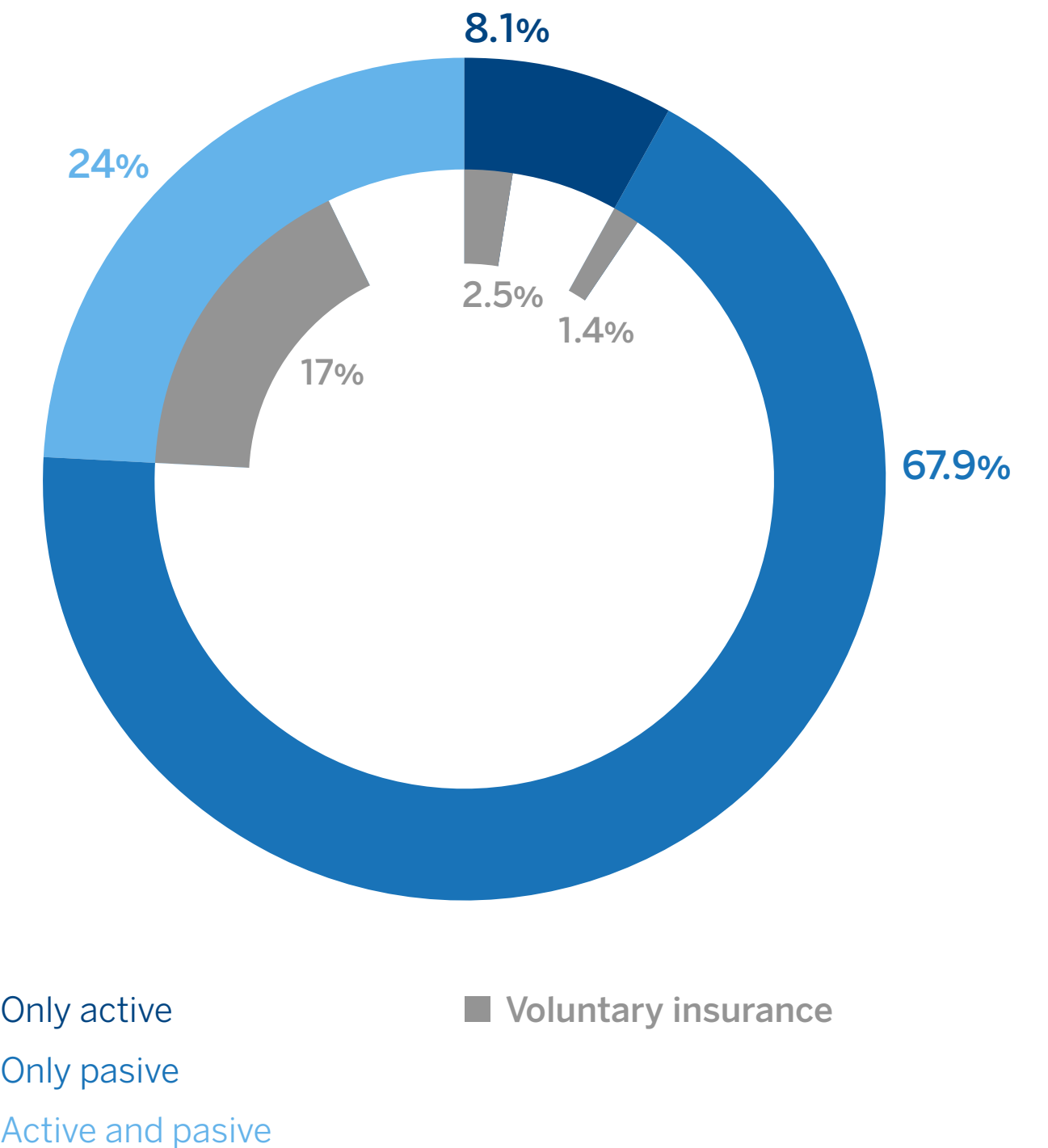
In Asia, around three in every five people in vulnerability say they have faced financial difficulties in the last 12 months, with the number one problem being financial difficulties caused by health issues, at 19% . Meanwhile, inflation is forcing many families to go without basic goods (or in the “best” of cases using up all their savings to acquire them) which is putting a great deal of pressure on their spending management.<sup>13</sup>

Research conducted recently in Pakistan<sup>14</sup> showed that low-income households now spend a greater proportion of their income on food, rising from 30% in March 2020 to 47% in April 2021. As a result, this makes them particularly sensitive to food inflation. When they consider the mechanisms available to them to cope with inflationary pressure, they often resort to strategies that can have serious consequences for their welfare and their standards of living. Some examples of this are reducing the amount and quality of the food they eat, the sale of assets and taking their children out of school. Although we do not believe that Latin America is facing similar degrees of desperate measures to stay afloat, the data on how savings have been affected suggest that this situation must be monitored very closely.

In other words, it is as important to identify the causes that make financial planning in the home difficult as it is to have the margin to cope with contingencies. The Foundation’s research aims to look deeper into these issues in the future, given that the understanding we have obtained so far will enable us to generate new opportunities by applying that knowledge to our financial offering.

**36 | Client linkage, by product type**

Total clients



12. Leapfrog Emerging Wealth and Health Index 2022.

13 - 14. KASH Foundation Focus note; June 2021. Food inflation and Impact on Low Income Households.

G-36. Clients current at 12.31.2022.



# Relationship with credit

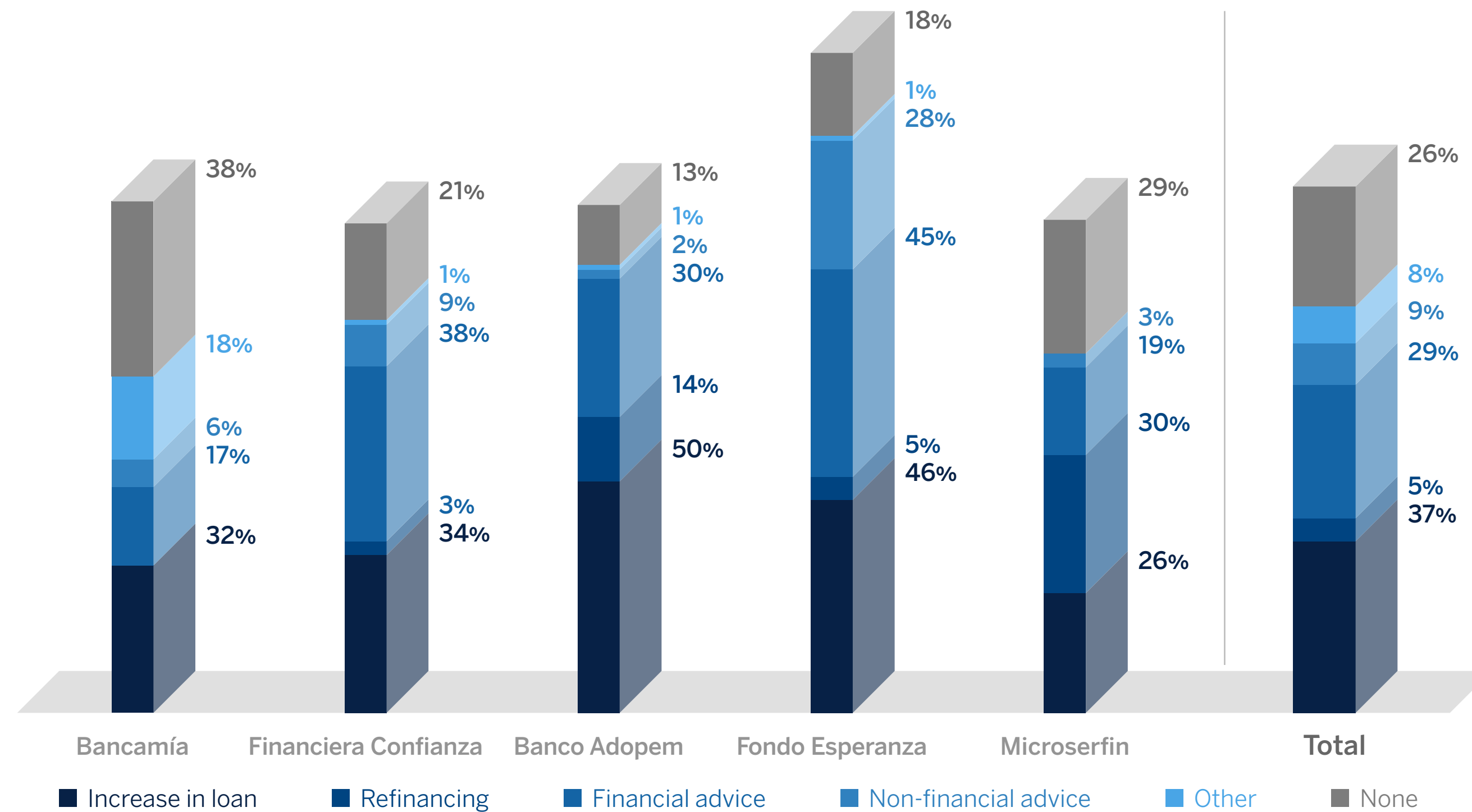
When choosing the best help that the institution can provide, 42% of those surveyed believe that an increase in their loan and refinancing would help them to improve their business management. Receiving financial advice is the second most popular option, especially in Chile, Peru, and the Dominican Republic. 25% of clients think that they do not need any help from their entity.

Thus, even though entrepreneurs know about the range of products, credit continues to be the product most requested.

**Microentrepreneurs believe that if their loans were increased and refinanced, their business management would improve**

## 37 | What entrepreneurs need

Total surveyed. Multi-response in all countries apart from Dom. Rep (Banco Adopem)



G-37. The question was "If you could choose something to improve your business management, which of the following do you think would help you to grow your enterprise?"



The trust that our institutions place in microentrepreneurs is evident from the number of people who access the formal financial system for the first time (becoming “banked”) and who, with the help of a loan, can drive their businesses forward and start their formal credit history. In 2022 this figure came to a total of 71,002 clients (28% of all new clients), with around half of these based in rural areas.

Although the average amount disbursed for new clients has grown in recent years, reaching USD 1,239, the monthly payment installment has remained the same proportion of sales, at 9%.

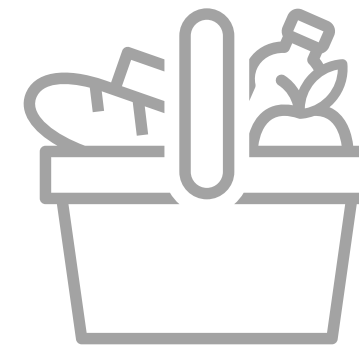
On the other hand, as clients renew their loans, the amount they receive increases. So it is that in the last six years, the average disbursement to new clients was USD 786, whereas after five years on average they were receiving USD 1,778.

**The amount our clients receive increases as they renew their loans with our institutions**



**38 | Amount disbursed**

New credit clients



Average disbursement  
**USD 1,239**

**39 | Banked entrepreneurs**

Credit customers entering the formal financial system for the first time



**Banked 103,735 people** in 2022

**41%** of new credit clients (+200,000)

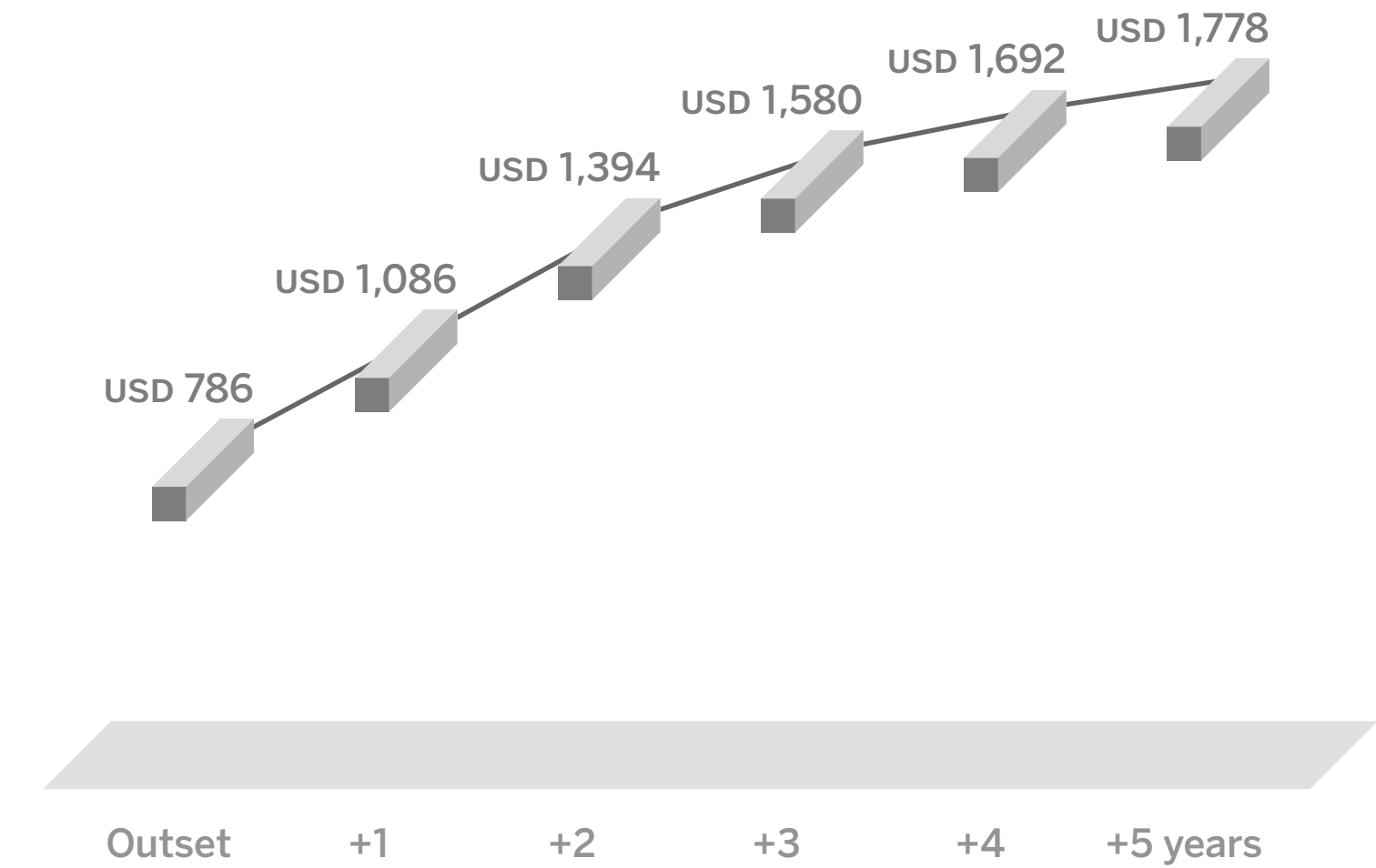


**56%**  
Women



**31%**  
Rural environment

**40 | Change in average amount disbursed**



G-38. Amount disbursed to new clients in 2022.

G-39. Clients who have not had a loan with any other institution in the financial system.

G-40. Clients in each cohort (year of entry). Initial value is the average initial value (1st disbursement by cohort). The average growth of disbursement to the group of clients in each cohort is applied to this value after one year, two years, etc.





# Relationship with saving

Saving, understood as a monetary reserve to meet unexpected or future expenses, or to make new investments, is something to which our entrepreneurs are committed. The problem is that it has been heavily impaired since the pandemic, with formal saving through financial institutions becoming a challenge. In the same way as income diversification is a mechanism that has been employed by households to cope with financial stress in the last few years, so saving is another survival mechanism used by clients, and one that, as financial institutions, we want to reinforce as their financial capacity scales up. Nevertheless, the capacity to save, together with its adoption or not, is not homogeneous across the Group's entities.

## Our saver clients

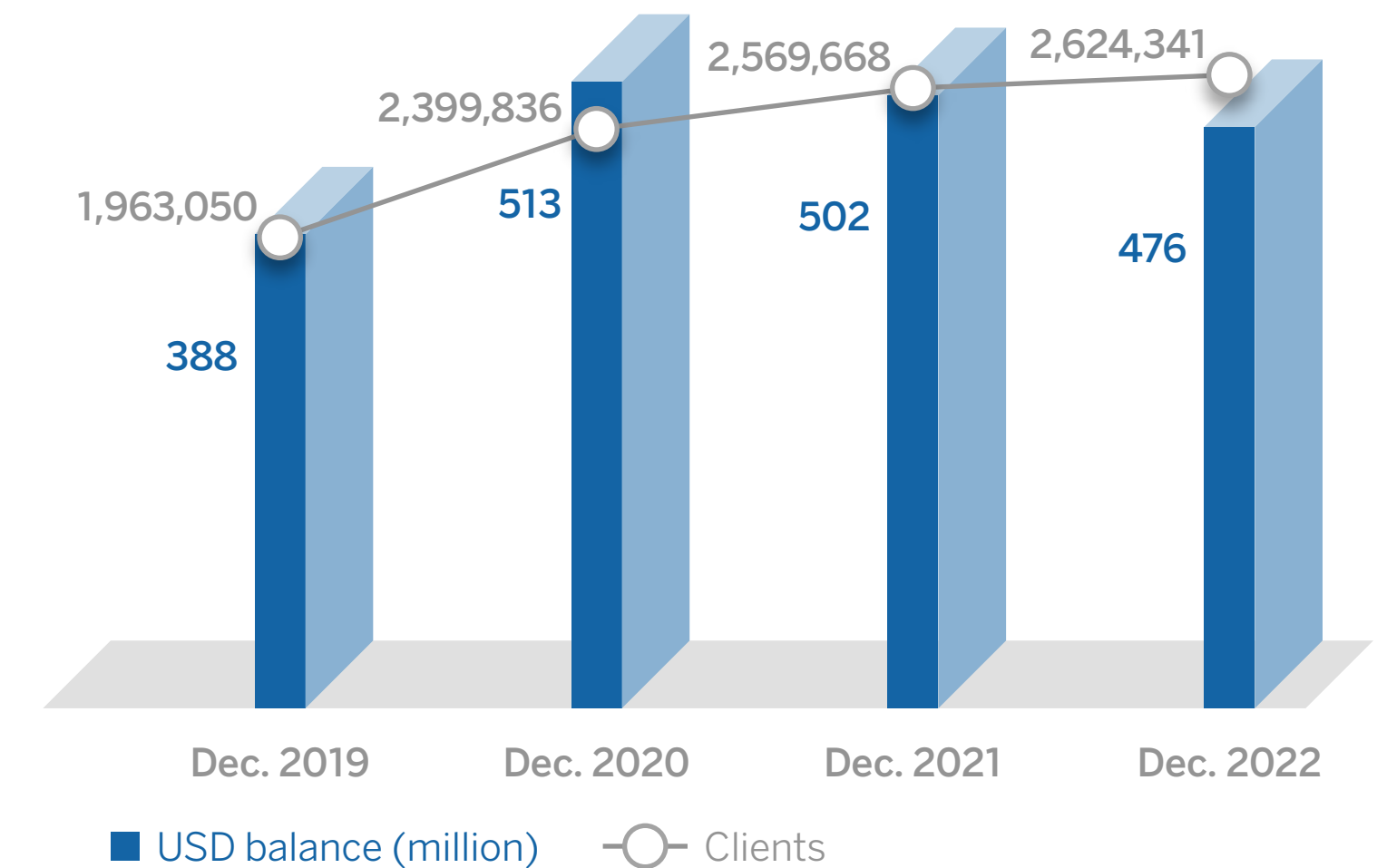
In 2022 the number of BBVAMF Group clients who saved went up (by 2%), although they saved smaller amounts, which meant there was an overall drop (-5%) in the total balance of up to USD 470 million, above pre-COVID 19 levels.

In institutions where savings culture is more widespread, such as Bancamía and Banco Adopem, both the number of clients and the balance have grown compared to 2021. While the increase in the number of Banco Adopem's clients is significant (9%), the rise in balances has remained more modest, no higher than 5% anywhere.

Despite the efforts made by households, saving is still a challenge for most of them. For this reason, for several years now clients have been segmented by different factors in order to offer them a product that is suitable to each of the phases in which they find themselves. These segments contain, among other profiles, potential savers and transactional clients, who are more inclined to increase their saving in institutions. These account for nearly half of all clients, representing 21% of the total balance, whereas clients in the "saver" segment, a smaller percentage numerically (7%) contribute about 80% of the total balance.

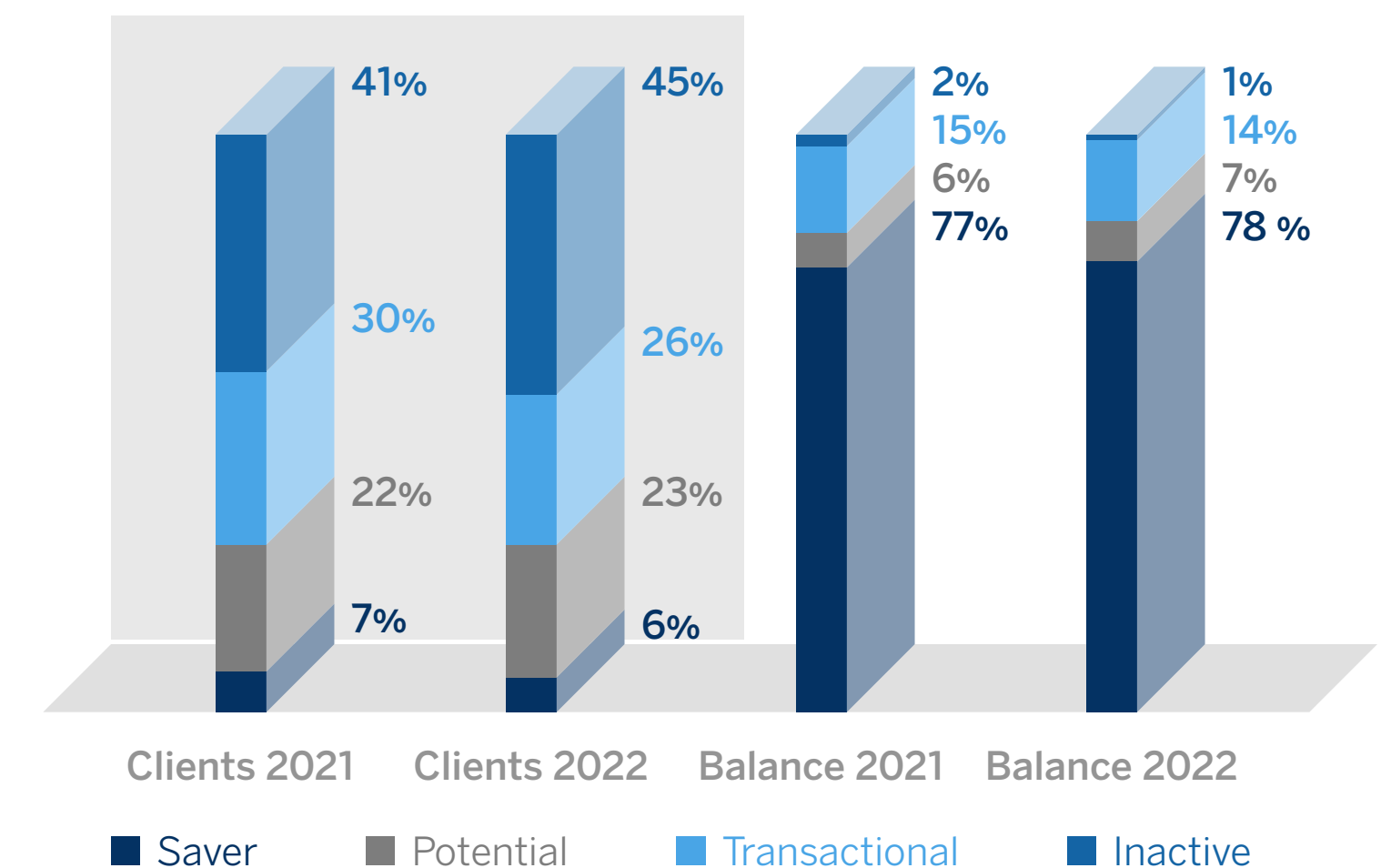
## 41 | Clients with savings & deposit accounts

Total clients & balances



## 42 | Saver client segments

Segmentation of savings clients & balances



G-41. All the research in this section excludes institutional clients. The balance is taken at each year-end.

G-42. Client with savings balance on each date. **1. Saver:** client with specialized savings product (not including transactional accounts). **2. Potential:** client with transactional savings products and greater affiliation to the institution. **3. Transactional:** client with transactional savings product & little affiliation with the institution. **4. Inactive:** remaining clients.



Part of the Foundation’s mission consists of balancing or matching the relationship between balances and clients. In this way the most vulnerable, as well as increasing their surpluses, can also increase their savings. This requires investment, both in the facilities that we offer them and in building on their financial skillsets.



**1 Income**

Having surplus high enough to cover each person’s basic needs.



**2 Facilities**

Having mechanisms that allow them to keep saving steadily: savings accounts, term deposits or any other savings product.



**3 Skills**

Having a skills plan, or else a short, medium or long-term goal.

**Difficulty and the savings channel**

**The pandemic’s impact on sales has had a negative repercussion on entrepreneurs’ savings capacity and their robustness.** Most of the businesses that closed saw their savings seriously impaired. In those businesses that stayed

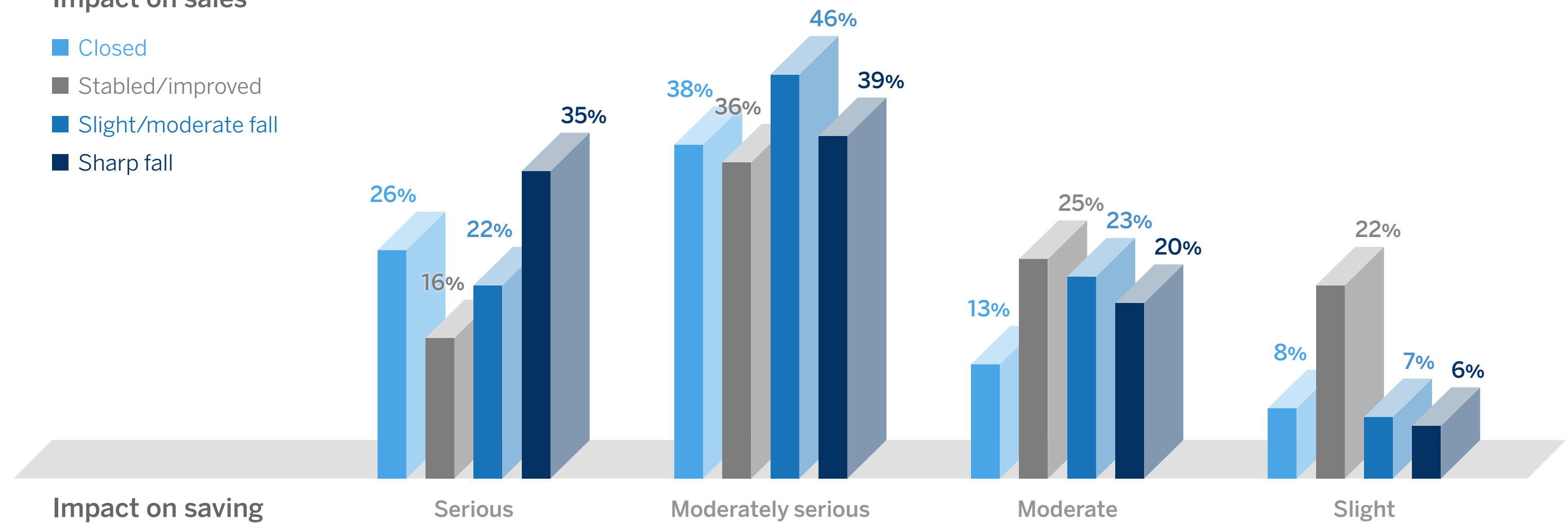
open but suffered a serious drop to their sales, savings were badly hit in 35% of cases, while 6% were only slightly affected.

**43 | Impact on the capacity and strength of savings according to the impact on business sales**

Entrepreneurs surveyed

**Impact on sales**

- Closed
- Stabled/improved
- Slight/moderate fall
- Sharp fall



G-43. Segmentation of the impact on sales and savings, defined as follows:

- Impact on sales: **Sharp fall** is a reduction of over 50% compared to pre-pandemic, **slight fall** is a reduction under 50%.
- Impact on saving: **Slight**: no effect on capacity to save; **Moderate**: Capacity to save impaired and resources to subsist for 6-9 months; **Moderate-serious**: Capacity to save impaired and resources to subsist for up to 3 months; **Serious**: No saving capacity.



Entrepreneurs' capacity to save significant amounts was sharply affected by the pandemic, which without a doubt impinged on how household financial decisions are taken.

Saving is an ingrained habit for entrepreneurs, with 90% of them identifying as savers. However, the pandemic has meant that one in three households has lost this capacity. At the other extreme, 15% have not altered this habit at all.

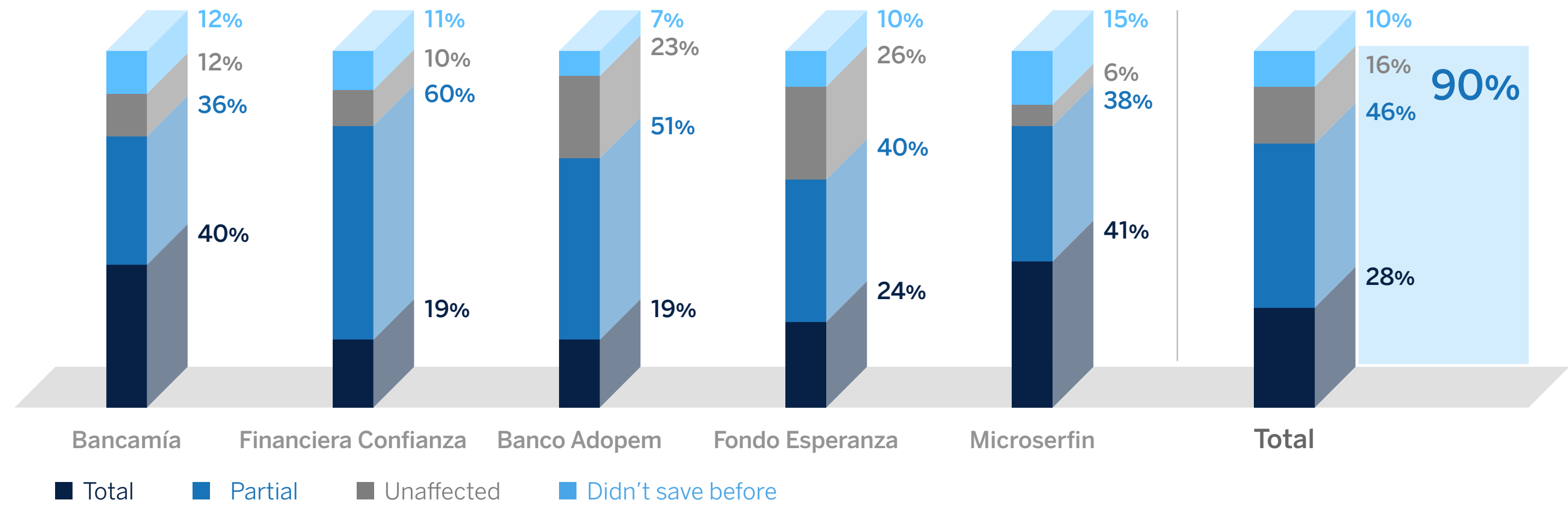
This implies that their financial buffer has been impaired (there is a positive correlation between the reduction in households' capacity to save and their current savings level).

**For 24% of them their income situation could be critical if anything unexpected happens, since they have exhausted their savings.** 41% could not survive for longer than three months if they did not have alternative sources of revenue. We should note that 11% said they had sufficient income to survive for over six months. Chile and Peru stand out here, two countries where access to financial accounts is more widespread nationwide.

**One in four clients reported serious deterioration to their savings levels**

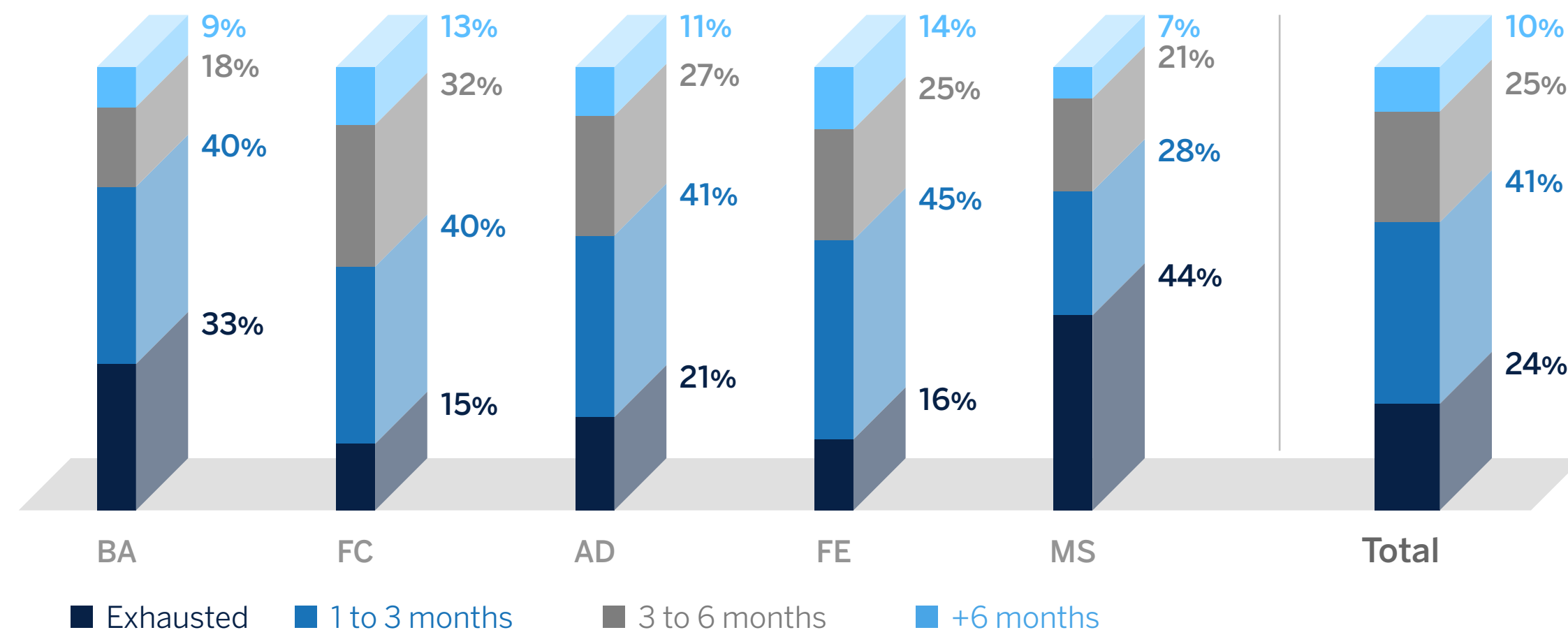
#### 44 | Savings capacity

Entrepreneurs surveyed



#### 45 | Current savings

Entrepreneurs surveyed



G-44. Clients were asked "How much has your household's savings capacity been affected by the pandemic?"

G-45. Clients were asked "In terms of household savings, in your current situation how many months could you subsist without your income?"

BA: Bancamía. FC: Financiera Confianza. AD: Banco Adopem. FE: Fondo Esperanza. MS: Microserfin.





The main difficulty that entrepreneurs say they face in saving is **lack of income** (44%), followed by three factors, all of which were selected approximately the same number of times: mistrust of banks (11%), the lengthy signing process and the physical distance of institutions (the last two were both chosen as reasons in 10% of answers).

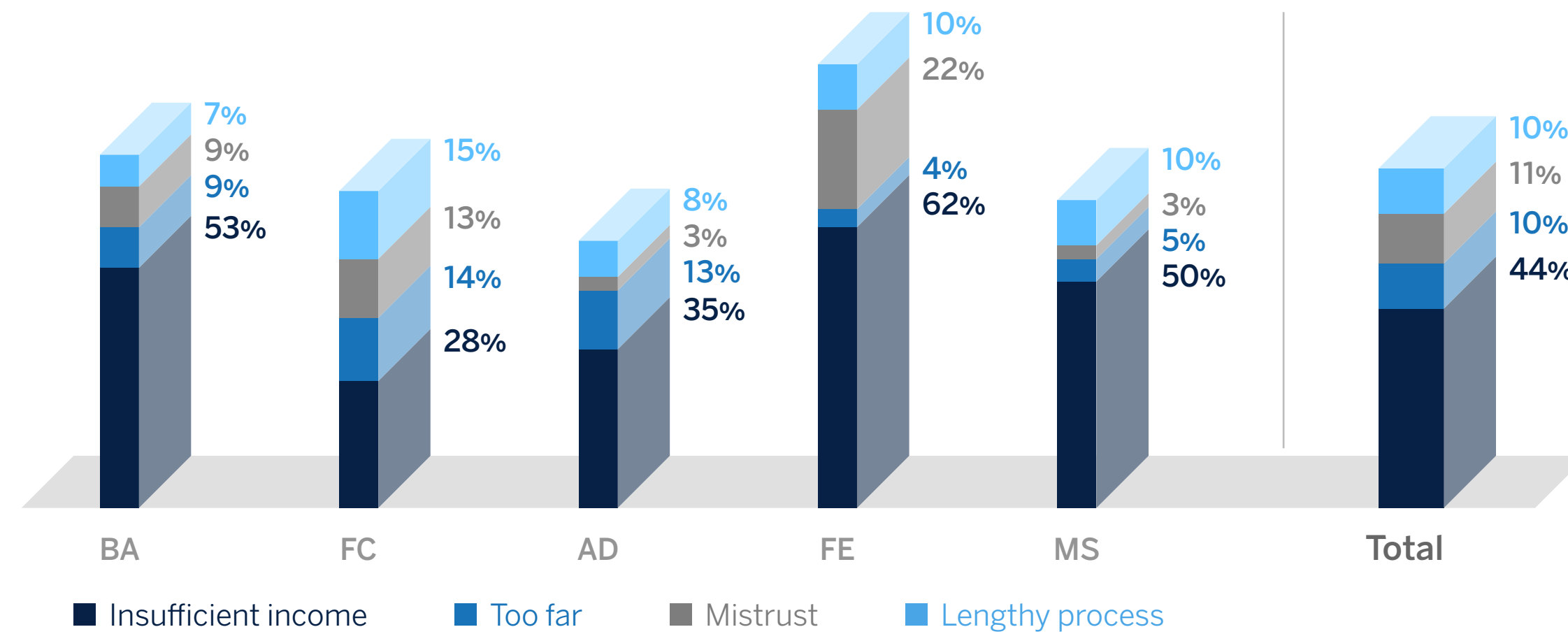
These difficulties vary considerably depending on the country.

- **Lack of income:** This is particularly important in Chile (a profile that is much poorer compared to the country's average) and Colombia. The lack of income is particularly acute for older people in Colombia. By contrast, in the Dominican Republic, it is mostly the young who report this obstacle.
- **Lack of trust:** This aspect is particularly significant in Chile and Peru and is more common among older people.
- **Distance:** This issue is most often given in Peru and is consistent with the types of channels used by Peruvians.

Therefore, our commitment to continue offering educational services that help to improve the financial capacities of people remains fundamental and represents an enormous opportunity.

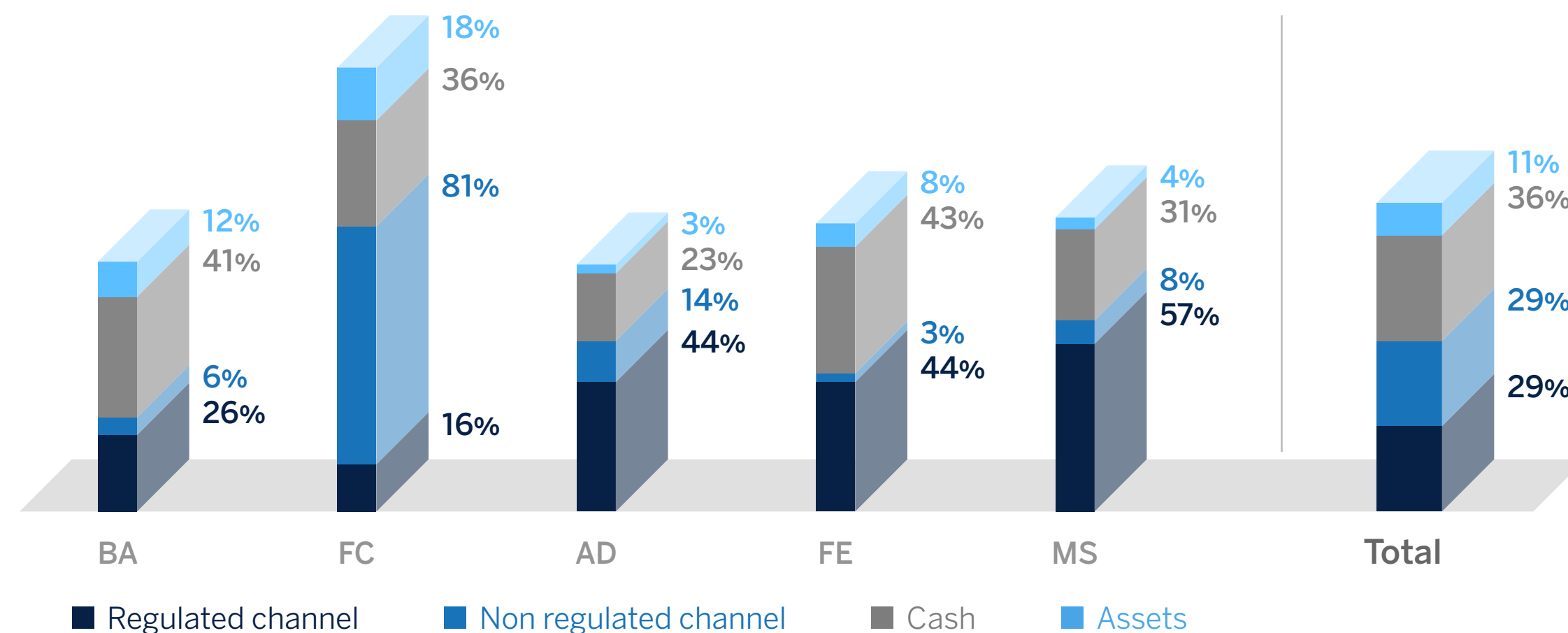
### 46 | Obstacles to saving

Entrepreneurs surveyed. Multi-response



### 47 | Saving channel

Entrepreneurs surveyed. Multi-response



G-46. Clients were asked to choose the issues that made saving most difficult for them.

G-47. Only for savers. Clients were asked "How do you save?" Options varied, ranging from the financial institution to informal proposals (adapted to each country), assets and cash





**Most entrepreneurs admit to still keeping their savings at home (36% do so in cash) or informal channels** such as cooperatives, associations, etc. (29%). Only a third (29%) use financial institutions. The manner of saving, while widespread, continues to be extremely old-school.

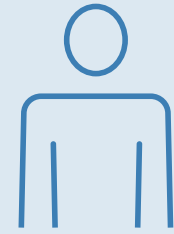
As a least frequent option we find investment in liquid assets or goods, one that is only chosen by 11% of clients.

**These preferences vary hugely by country.** In Peru (where there is distrust of saving), people tend to choose an informal channel, unlike the Dominican Republic and Panama, where financial institutions are more established. The use of more formal mechanisms is directly related to educational level, so the propensity to save in a formal manner increases in line with the level of education: the better educated people are, the more they know about the payment facilities, the transactional and monetary benefits that formal channels provide them.

There are important differences depending on the profile:



- **Men are more likely to turn to assets** (Colombia, the Dominican Rep.), which is particularly marked in farming sectors. This option is almost residual among women.



- **Older people tend to use unregulated channels** (Colombia, the Dominican Rep.).



- **Using cash as a savings model is more widespread in rural and farming environments**, whereas saving with financial institutions is the majority option in urban settings.







# Relationship with insurance

Insurance policies for vulnerable entrepreneurs are products that have been specially adapted to our clients' needs, whether in terms of the risks covered, the prices, acquisition processes or the claims payments. They are an essential part of our value proposition, since they help to raise their resilience and reduce their vulnerability to the negative effects of events beyond their control. Furthermore, insurance enables them to access medical and farming advice anytime, anywhere.

In the last few years, we have made a major push to promote greater uptake of these products. The voluntary insurance offering entails numerous complexities (in designing the product, the cost of adapting it and its tangible characteristics), but after the pandemic, health insurance has become particularly attractive.

BBVAMF Group closed 2022 with 609,000 beneficiaries in all, of whom more than 208,000 had taken out healthcare cover. The number of people with some kind of insurance cover grew by 64% in 2022.



The most vulnerable are more prone to take out healthcare insurance: we see that 47% of clients in poverty or extreme poverty take out this kind of cover, compared to 22% of vulnerable and 13% of non-vulnerable clients.

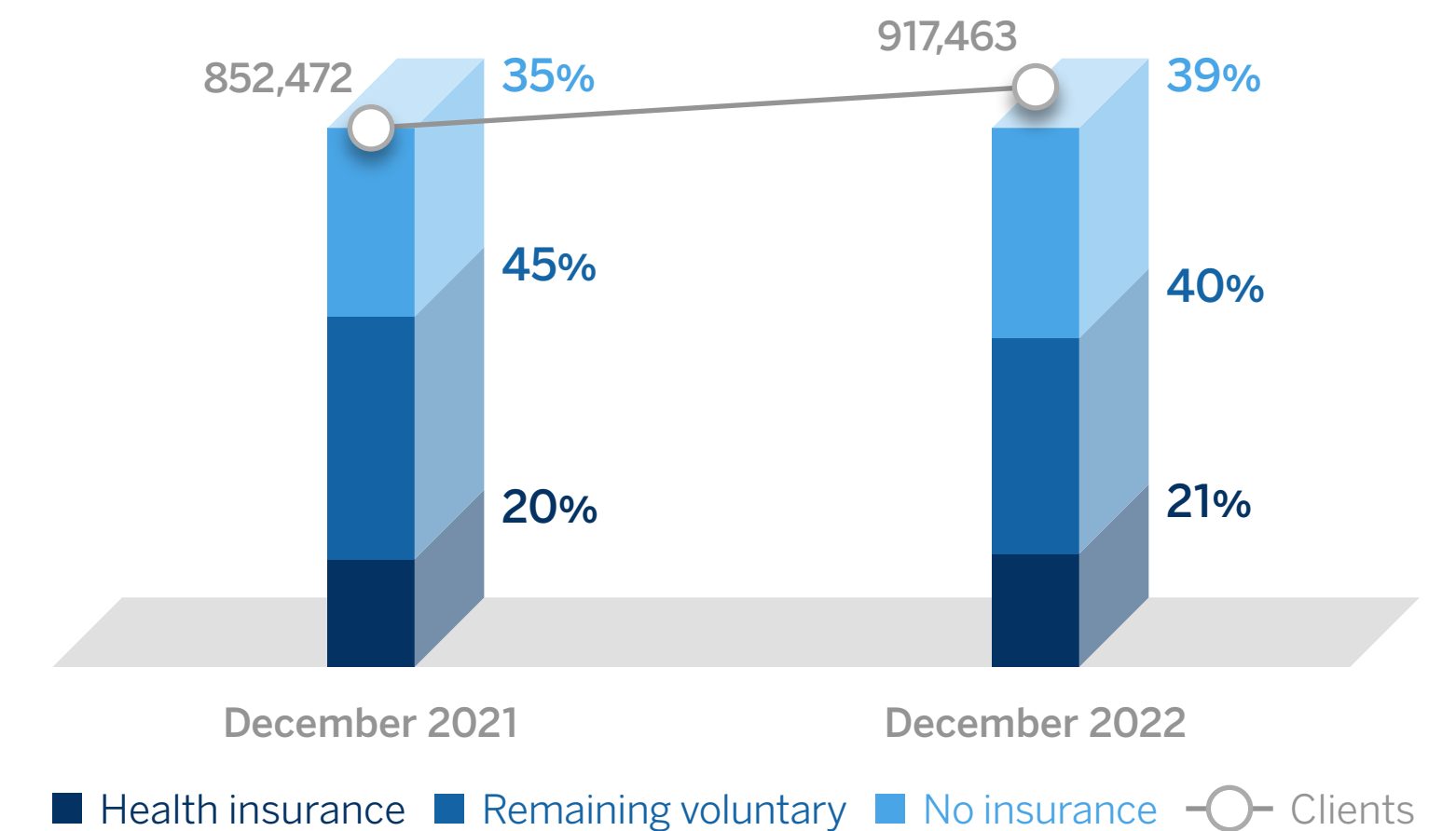
\* No 2021 information available for Panama.

G-48. Clients with outstanding loans on the date of analysis having also a voluntary insurance policy. Only clients, not beneficiaries.

G-49. Clients with outstanding loans at 12.31.2022 who have taken out a voluntary policy, by vulnerability segment. Only clients, not beneficiaries.

## 48 | Clients with voluntary insurance

Total credit clients



## 49 | Healthcare insurance, by vulnerability segment

Total credit clients

