

European Financial Services
Round Table

EFR PAPER ON FINANCIAL HEALTH OF EUROPEAN HOUSEHOLDS

Key messages

- Financial health is a societal topic in which both the public and the private sector have their role to play. One of the key issues is to have a steady flow of income and one of the roles of Governments is to promote employment and job security. However, simply having a job does not necessarily mean that people are financially healthy, since there are also other factors at play which put pressure on the financial health as outlined below.
- For banks and insurers, contributing to financial health is an inherent part of their business strategy and ethical foundation, with the implementation of specific measures already delivering results, which should be pursued.
- With this paper, the EFR believes that National and European policymakers should : (1) acknowledge the role banks and insurers play in contributing to financial health and inclusion, (2) leverage digitalisation and technology while paying attention to digital exclusion and (3) foster financial education.
- The EFR believes that National and European policymakers could encourage National coalitions on financial health as they can contribute to improving the financial health of households by defining goals, identifying best practices, and measuring progress.

Financial health of European households is under increasing pressure

Financial health is a state in which an individual or household can smoothly manage their current financial obligations and have confidence in their financial future¹. This includes four elements:

- managing day-to-day finances to meet short term needs
- capacity to absorb financial shocks
- capacity to reach future goals
- feeling secure and in control of finances

Financial health contributes to a stable and inclusive society, and to subsistence security. The stress, loneliness and exclusion associated with money worries prevent people from participating optimally in society. Indeed, these issues can be accentuated by demographic changes that our European society is experiencing, with an inevitable impact on the financial health of citizens. This also causes persistent problems in other areas, such as mental and physical health, education, living, working, parenting and safety^{2,3}. That is why an increasing number of public and private European organisations are investing to improve the financial health of their citizens, employees and customers.

Despite all these efforts, the financial health of European households has been challenged in recent years by the lingering impact of the COVID-19 pandemic, the unprovoked aggression against Ukraine still ongoing, and rising living costs. The rising interest rates have also been impacting some mortgage obligations more than others (which are based on fixed rates). An EU report in 2022 highlighted a declining trend of consumers making ends meet³. The IMF has stated that, in the EU, the cost-of-living increase is larger for lower-income households⁵, putting even more pressure on the financial health of vulnerable households. Therefore, many European consumers are struggling to successfully manage day-to-day finances, build resilience, and work towards long-term goals. Over a third of European consumers do not own any savings products, and more than half are concerned that they will not have enough money for a comfortable life in retirement⁴.

Role of the financial sector

Financial institutions provide services that are essential to the lives of consumers, ranging from basic savings accounts to life insurance and investment products. The nature of their business puts financial institutions in a unique position to contribute to consumers' financial health. EFR members strongly believe that, in light of this unique position, responsible financial institutions strive to contribute to the financial health in their community and, ultimately, foster social sustainability.

Financial institutions can and do contribute to fostering financial health from several perspectives. For customers, it is important, for instance, that financial institutions can allocate credit efficiently rather than them are relying on non-regulated and non-transparent lenders that may charge unduly high fees and hinder financial stability. The financial system is key in intermediating credit efficiency and responsibly, and it has a positive effect on financial health. While their role as financial services providers is clear, financial institutions are also employers and companies that are part of a community. EFR members believe this also includes taking responsibility for the well-being of wider society by contributing towards making resources, expertise and reach available to help society achieve long-term sustainable prosperity.

SME Example

A concrete example in this regard is a dedicated working group for the Dutch Coalition for Financial Health which focuses primarily on enhancing the financial health of young employees of SME clients. According to a report by Nibud in 2023¹, debt issues have witnessed a rapid increase among young people in the Netherlands, with a 70% rise over the past five years, affecting 34,000 young people annually, and with 59% of young people grappling with financial difficulties. Given that many Dutch SMEs lack adequate HR expertise, financial education is offered, with tools such as mobile apps provided, as well as online platforms to support Dutch SMEs and their younger employees. Collaboration takes place with a behaviour change group to provide access to existing services and planning tools that cater to the specific needs of SMEs. Furthermore, training is provided for managers to enhance their awareness of the impact of financial stress on their employees and enable them to identify the signs of financial problems. The overall objective is to foster a supportive culture that reduces absenteeism, enhances productivity and addresses the specific financial requirements of young employees in the Dutch market.

1. Source: Nibud. (2023). *Jongeren en schulden*. Retrieved from <https://www.nibud.nl/beroepsmatig/jongeren-en-schulden/>

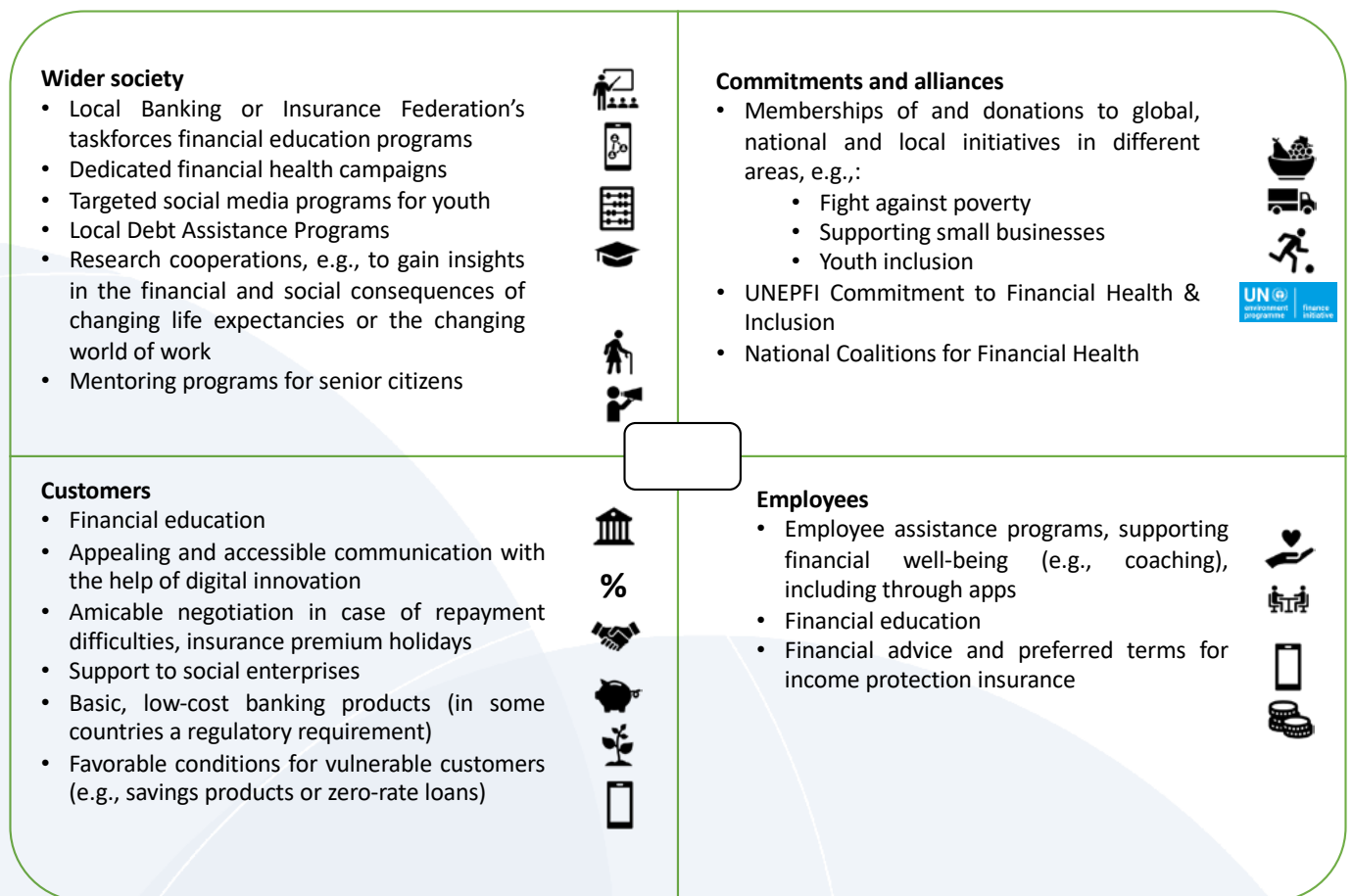
As responsible financial services providers, they ensure that their products and services are designed with consumers' financial well-being in mind and, in addition, that they ultimately provide financial advice and education. Caring about consumers' financial health contributes to long-term customer loyalty as customers are more likely to trust and remain with a financial institution that cares about their well-being and provides the tools and resources necessary to improve it. Financial health encompasses not only philanthropic and corporate social responsibility initiatives, rather it is also an inherent part of their business strategy and ethical foundation.

As responsible employers, EFR members care about the well-being of their employees. This well-being includes the aspect of financial well-being, which translates into employees feeling secure and in control of their finances. To this end, sustainable HR policies include measures to promote the financial well-being of employees, including, but not limited to, financial education and coaching as part of employee assistance programs.

As active members of their communities in which they operate, financial institutions are able to deploy their expertise, networks, funding and employee skills to address and overcome disadvantage in their local communities. In order to achieve such social impact, they have initiated or contributed to a range of global, national and local programmes, including partnerships with clients, to foster financial health, financial education and skills, and work integration at all levels of society, with special attention to the most vulnerable.

An overview of efforts made by members of the EFR can be found in the following Infographic.

EFR Members' current initiatives on Financial Health



Call to action to increase impact

To increase the impact that the financial services sector can make on the financial health of households, the EFR has the following suggestions for national and European policymakers:

- Acknowledgement of the role banks and insurers play in financial health and inclusion. Banks provide essential services that are required for participation in modern society: easy access bank accounts, low cost and secure payment services, access to investments markets, loans and credits for both households and companies to finance mortgages, innovations. Insurance also plays a crucial role in improving people's financial health and overall financial inclusion. Insurance can provide social protection by helping families and businesses cope with and recover from unexpected financial shocks, such as accidents, natural disasters, or other emergencies. By mitigating the negative financial impact of these unexpected events, insurance contributes significantly to enhancing financial well-being and stability.
- Leverage digitalisation and technology as this can lower barriers that prevent consumers from accessing financial products and services. For example, digital techniques such as layering can make information on financial products easier to understand. All financial services legislation should be technology-neutral at a minimum, while ideally fostering digital innovation while paying attention to digital exclusion.
- Include financial education in primary and secondary school curricula in order to improve healthy financial decision-making by (young) consumers and their parents and raise awareness on the risk of influencers.

Furthermore, the EFR proposes an additional approach in which:

- (Inter)national goals are defined for improving the financial health of households. These goals should relate to improving financial health today (making ends meet) and building financial security for tomorrow (resilience and planning).
- Public-private cooperation is encouraged to do what is needed to reach these goals. This notably means identifying and re-using best practices where possible.
- Progress is monitored by structurally measuring financial health based on homogeneous indicators.

Examples of such collaborations and coalitions are the UNEP FI Commitment to Financial Health and Inclusion¹, the UK Strategy for Financial Wellbeing⁶, and the National Coalition Financial Health⁷ in the Netherlands.

The EFR and its Members support actions to encourage national coalitions on financial health – or even a European coalition – and call for national and European policymakers to explore the potential and to accommodate the set-up of such coalitions, as this would also help the financial services sector to steer towards the implementation of additional concrete measures to drive impact.

¹ UNEP FI (2021) [Commitment to Financial Health and Inclusion](#)

² SER (2017) [Opgroeien zonder armoede / Growing up without poverty](#)

³ CBS (2021) [Armoede en sociale uitsluiting 2021 / Poverty and social inclusion 2021](#)

⁴ Eurostat (2022) [Ability to make end meet becoming harder](#)

⁵ The European Insurance and Occupational Pensions Authority (2022) [Consumer Trends Report 2022](#)

⁶ IMF (2022), [How Europe Can Protect the Poor from Surging Energy Prices](#)

⁷ Money & Pension Service (2020) [UK Strategy for Financial Wellbeing 2020-2030](#)

⁸ NCFG (2022) [Nationale Coalitie Financiële Gezondheid / \(Dutch\) National Coalition for Financial Health](#)

The European Financial Services Round Table (EFR) was formed in 2001. The Members of EFR are Chairmen and Chief Executive Officers of international banks or insurers with headquarters in Europe. EFR Members believe that a fully integrated EU financial market, a Single Market with consistent rules and requirements, combined with a strong, stable and competitive European financial services industry will lead to increased choice and better value for all users of financial services across the Member States of the European Union. An open and integrated market reflecting the diversity of banking and insurance business models will support investment and growth, expanding the overall soundness and competitiveness of the European economy.

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