May 2020

Introducing the Seymour Financial Resilience Index™ and Applications

The Index that measures households' financial resilience across nine behavioural, sentiment and resilience indicators

Seymour CONSULTING

Executive Summary

Why have we worked to develop this Index, and why is it being launched now?

Covid-19 has already caused the first coordinated global economic shutdown in history. Here in Canada, the health pandemic has shocked our national economy and thrown the lives of many into a tailspin. Although still early in terms of cumulative fallout, we can see that financially, some Canadians are faring far better than others. Our trended data shows that the financial health and resilience of Canadians was fragile at best for many Canadians, even before the economic shock caused by the global pandemic.

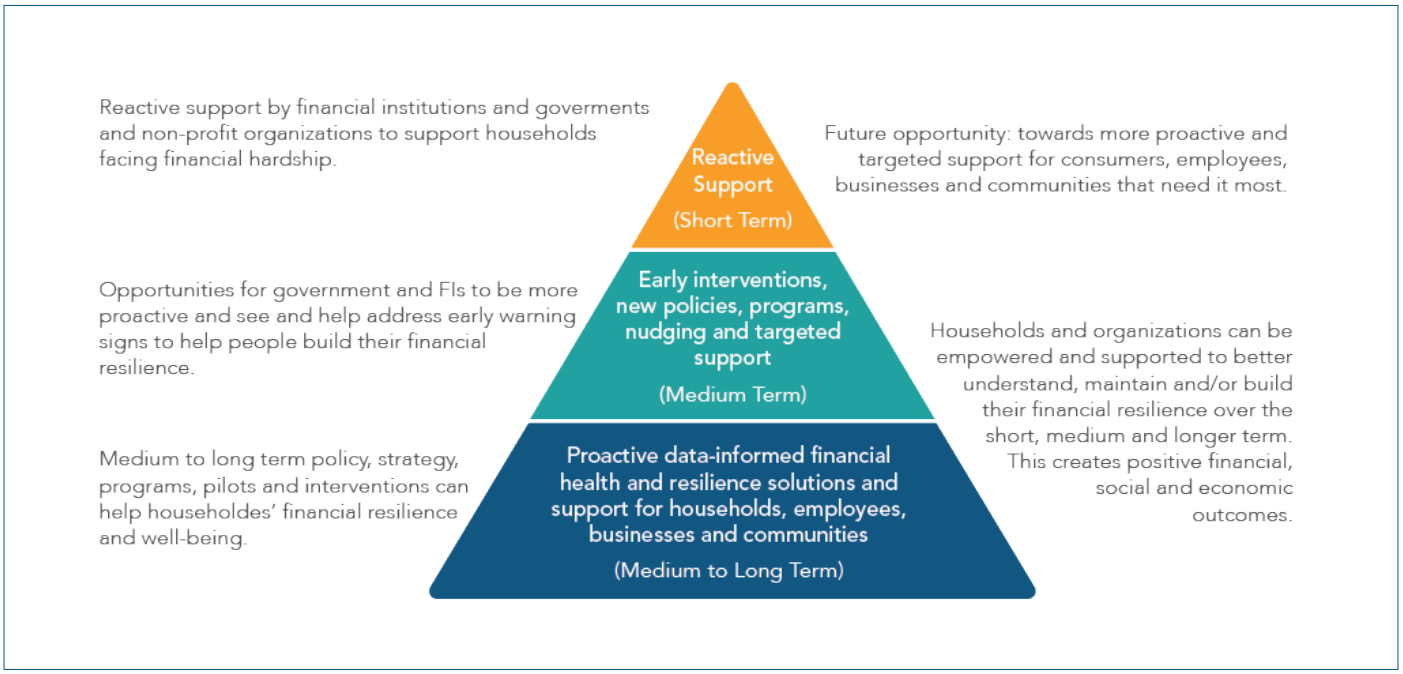
In other words, some segments of Canada's population have the financial resilience to weather unplanned life events—financial stressors, shocks and hardships such as this one—whereas others do not. Traditional financial and credit score measurements fall short at showing us how Canadians are really doing financially because they're missing a key component: household financial resilience. We created the Seymour Financial Resilience Index™ to address this gap. In our opinion, it is the largest silent contributor to a household's overall financial 'score', and it is absent from traditional measurement models.

To our knowledge, this is the first Financial Resilience Index to be launched in the world. By better understanding the financial resilience levels of Canadians, government, financial institutions and the wider ecosystem can collectively and individually provide more effective, targeted support for Canadians. Businesses, communities and individuals all have unique financial challenges, stressors and needs for support. Support needs vary from province to province, and from household to household.

We believe in the importance of financial health and resilience for all. Covid-19 has created a "reset opportunity" and fresh view towards new models and approaches. Our intention is that this Index helps ignite reinvented financial health and resilience measurement, financial services re-invention, and new policy development to support struggling and vulnerable Canadian households. We see an opportunity to build on the strengths of Canada's social policies, strong financial ecosystem, values-based society and deep-rooted belief in the importance of equality and on social justice for all.

Financial well-being is central to personal well-being at the individual, family and community level. Financial resilience is crucial to the overall resilience of people, businesses and our economy. But what are the underlying factors that determine financial resilience across multiple dimensions, including financial behaviours? How financially resilient are Canadians? Our studies and now Index help answer these questions. As responses to the pandemic will no doubt re-open debates on societies' approach to household financial resilience, income inequalities, social policy and the future of taxation, it is our hope that financial institutions will take seriously the view that a priority focus should be to help their customers lead financially healthy lives.

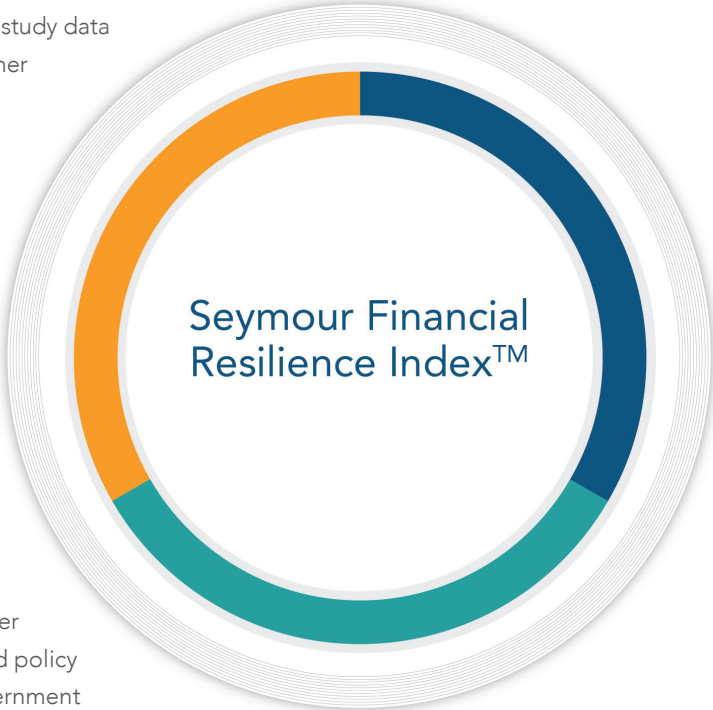
Ultimately, financial institutions have an opportunity to build customer and bank relationships, cementing loyalty over the long term, while helping customers to maintain or improve their financial health and resilience. We fully appreciate that re-imagining banking in this way is far from straightforward. Yet this is our opportunity, building on the positive responses of financial institutions and government in supporting Canadians facing financial hardship in these challenging times. This builds on Canada's strong social and financial policies that set our country apart from so many others.



Introducing the Seymour Financial Resilience Index™

The Seymour Financial Resilience Index™ [the'Index'] and our Framework [highlighted on page 11] bring visibility and measurement to Canadians' financial resilience and financial well-being. This provides a three-dimensional view of Canadian consumers that goes beyond their product holdings, assets, credit score or delinquency rates.

The Index combines with longitudinal Financial Well-Being study data and analysis to provide enhanced understanding of consumer financial resilience for public and private sector leaders.



It can be a forward-based indicator, that as a result of showing changes in measured consumer and financial behaviours, could explain slowdowns in spending, increased savings, and their effects on debt repayment and consumption.

The Index measures financial resilience in Canada across nine behavioural, sentiment and resilience indicators. It enables organizations to measure and track financial resilience over time and at the individual, segment, provincial and national levels.

Ultimately, the Index can help spur more coordinated, transparent and collective accountability—enabling smarter forecasting, benchmarking, strategy, risk management and policy development. It is a key tool for financial institutions, government and other organizations with a stake in supporting the financial lives and overall health and resilience of Canadians over the short, medium and long term.

The Index was created specifically for Canada and is based on the unique characteristics and nuances of Canada's consumers, social policies, provincial differences and financial ecosystem. That being said, the Index and indicators may have value around the world, as countries work individually and collectively to support the financial health and resilience of their citizens.

Financial Resilience is defined as a person's ability to get through financial stressors, shocks and financial hardship as a result of unplanned life events.

Financial Vulnerability is defined as a person's reduced ability to bounce back from financial stressors, shocks or set-backs as a result of unplanned life events.

What the Index measures

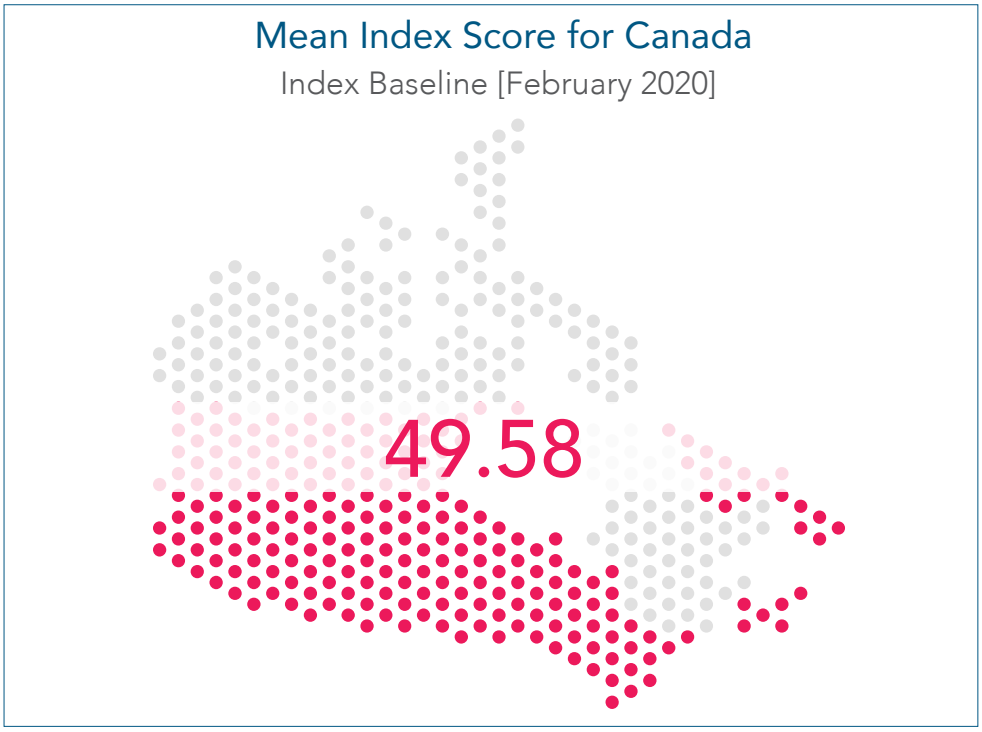
The Index measures a household's ability to get through financial hardship, stressors and shocks as a result of unplanned life events. The regression model has been created based on four-years' of statistical analysis and modelling of consumer financial health, stress and resilience data from our independent longitudinal Financial Well-Being studies, first launched in 2017.

The Index allows financial institutions, government and organisations to measure, track and understand the financial resilience of their customers, borrowers and citizens over time. Covid-19 has revealed the importance of having pre and post financial shock measurements of financial resilience, to get a more fulsome picture. It can help enable targeted support strategies and policies targeting financial resilience in advance of future financial shocks, at the individual household, segment, provincial and national levels.

Financial Resilience Index Baseline Scores for Canada

The average national financial resilience score for Canada as of the first Seymour Financial Resilience™ Index baseline score and results (for February 2020) is 49.58. The Index score is from 0 to 100.

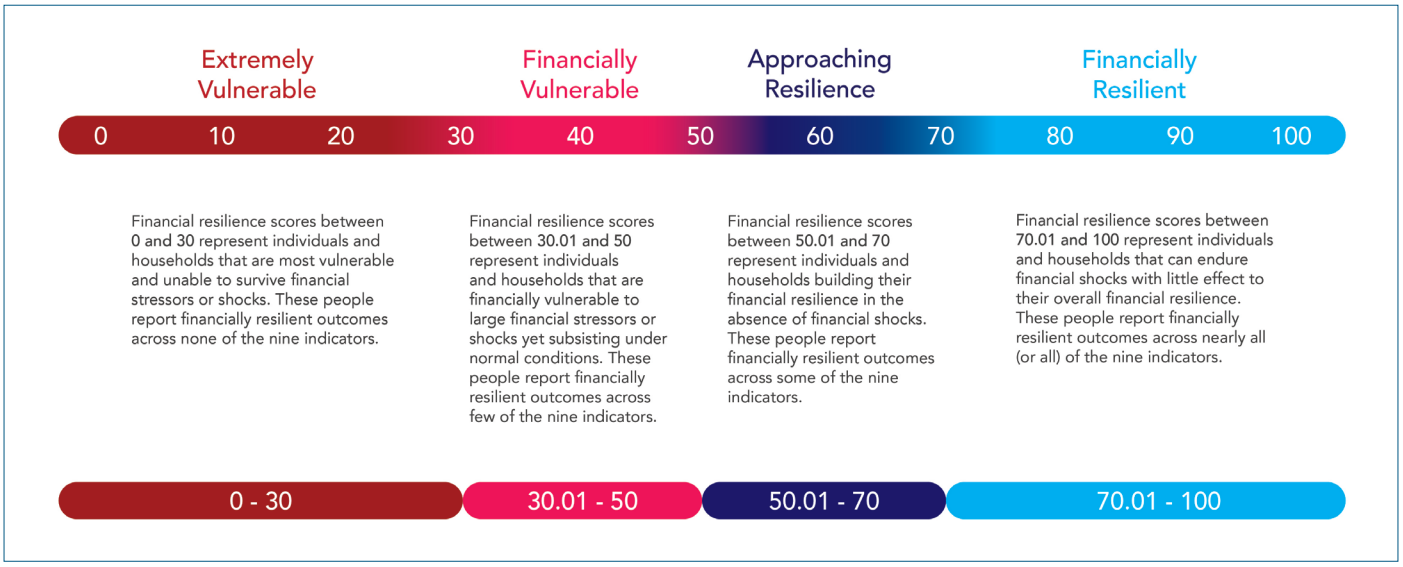
This means that on a national level, Canadian households are overall 'Financially Vulnerable' based on the Index scoring model: and this was before the Covid-19 crisis affected the country. Indeed, the large majority of Canadian households (77.3% of the population, representing just under 20 million adults), have challenged financial resilience.



The Index baseline builds on four years' of longitudinal Financial Well-Being studies data, with scores and results from the data from the most recent survey, conducted in early February 2020. All resulting charts and percentages outlined in the following pages are based on February 2020 data.

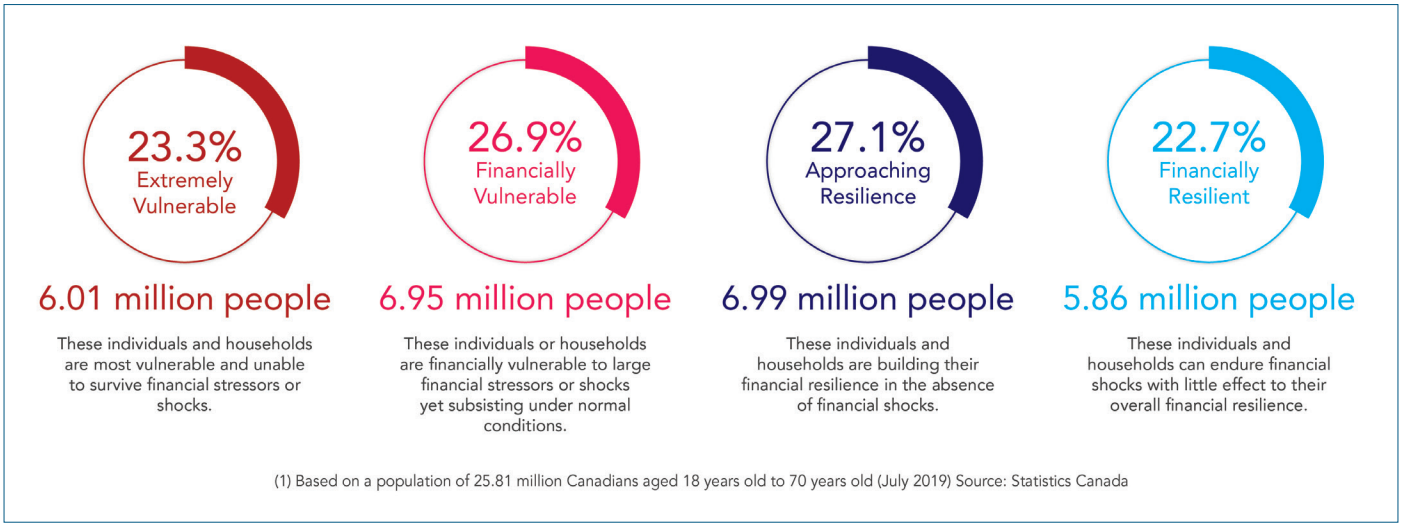
Index Scoring

The Index attributes a score out of 100 for individuals based on the nine indicators, outlined on page 9.



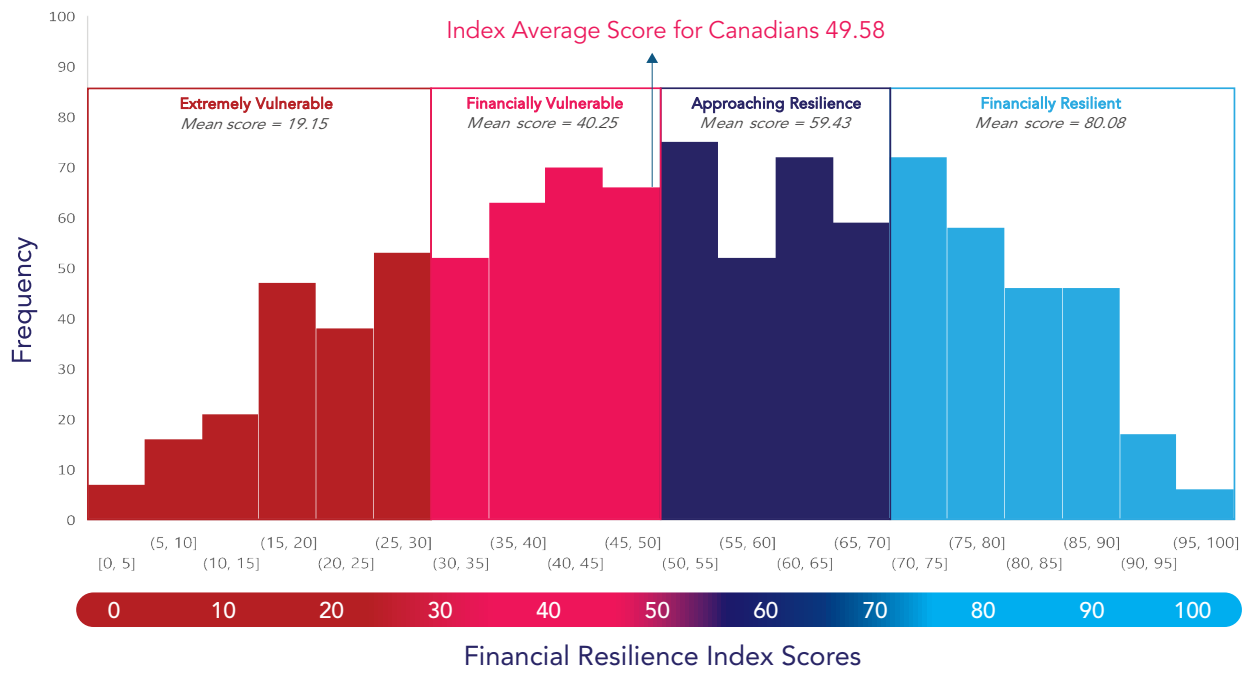
Based on our statistical analysis, scoring zones create four financial resilience segments for Canadians.

Financial Resilience Segments as of February 2020

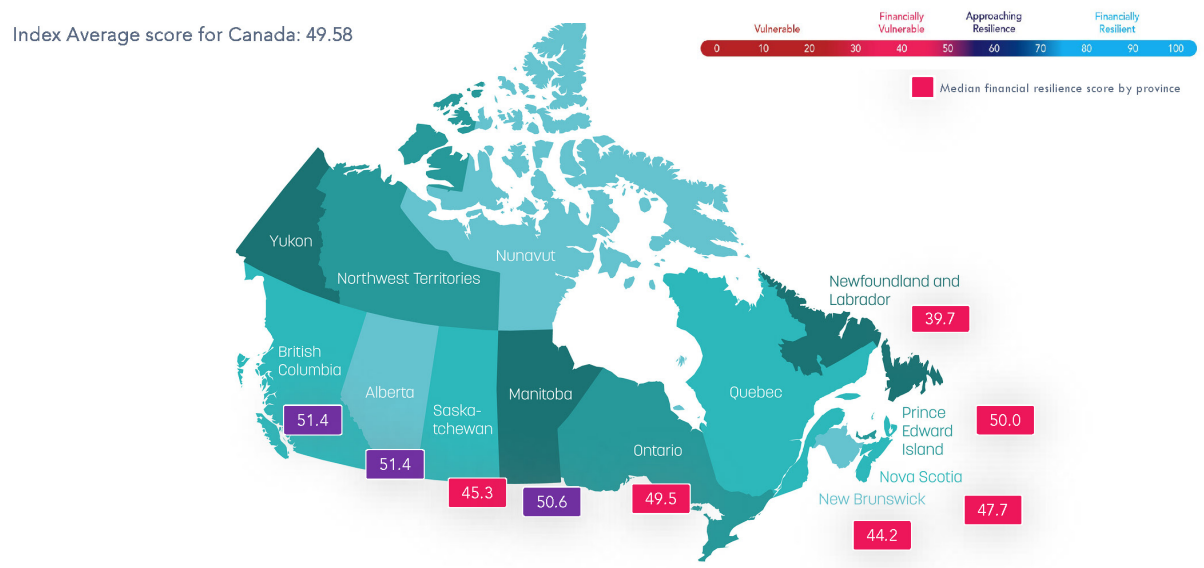


There are distinct differences between these segments in terms of financial and consumer health behaviours, sentiments, financial stressors and characteristics based on our analysis of the Financial Well-Being studies dataset, Index indicators and financial resilience segments.

Index Distribution: based on the February 2020 Index baseline



Financial Resilience Baseline Scores by Province



Holistic lens on households' Financial Resilience (Examples)

Financial stress and impact on my emotional, physical and personal well-being
Money worries and financial stress are causing emotional stress making me lose sleep at night. It's also making me less productive at work

Stress over current and future financial obligations
I'm facing financial hardship and am stressed about making my rent this month. Reduced work means it's harder to manage debt-load and plan.

Financial Management and Debt: due to the higher cost of living, I'm living pay cheque to pay cheque. It's becoming difficult to manage my debt loads. While I'm paying my bills on time, I'm using my credit card more to cover essentials, and am paying only my minimum balance.

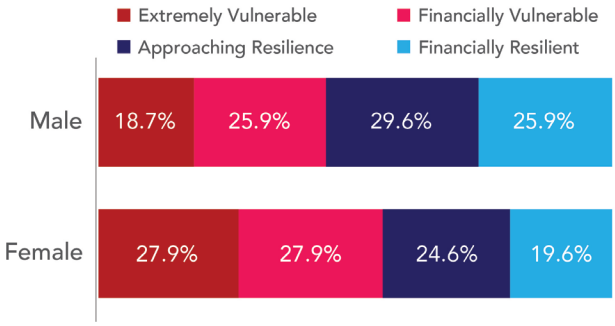
Positive steps to improve my financial resilience
Since my separation, which caused a financial setback and increased expenses, I've learned where and how to be creative in my spending and saving, even if it's a small amount. I'm also tracking my credit score.

I've built up my savings buffer and am putting money away for retirement, even if it's far off.

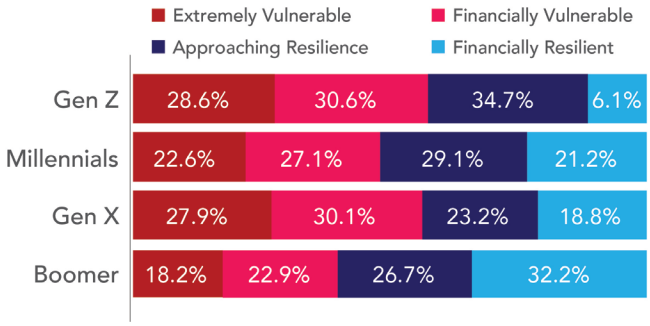
Social Capital: My father can provide financial support and advice if I need it, but I don't want to turn to him. Money's private. However when I re-marry next year, we'll have a dual-income household and be able to split costs.

Resilience Segments by Gender and Lifestage

Gender distribution for the financial resilience segments



Life stage distribution for the financial resilience segments



Gender and life stage distributions highlight that more women are less financially resilient than men in Canada. They also highlight how financial vulnerability is a mainstream issue across all life stages.

Seymour Financial Resilience Index™ Indicators

1 Debt management composite.

2 Plans ahead financially for upcoming and unexpected expenses or to save for long-term goals.

3 Change in household financial situation over the past 12 months.

4 Social capital: close person(s) who could provide financial support in times of financial hardship.

5 Liquid savings buffer: how many weeks or months could afford to cover living expenses at current spending levels if income was lost or reduced, without borrowing or drawing on retirement savings.

6 Self-reported credit score.

7 Confidence in ability to meet short-term savings goals.

8 Financial stress composite.

9 Financial stress over current and future financial obligations.

Canadians are scored across nine indicators that impact a household's financial resilience based on analysis and statistical modelling of the longitudinal Financial Well-Being dataset. These indicators, amongst many others within the fulsome Well-Being dataset, have been developed in line with our holistic and proprietary Financial Well-Being Framework [1].

Indicator questions have been developed based on the unique characteristics and nuances of Canadian consumers; our financial ecosystem, social policies and other challenges impacting Canadians and their financial lives (for example with our free medical care for all, yet our high cost of living).

The key dependent for the Index relates to a households' perceived confidence in its ability to get through financial hardship as a result of unplanned life events. Weightings for the model are based on the indicators' contribution and impact on financial resilience, based on statistical modelling. Weightings for the model are not equal.

[1] Based on extensive modelling, two of the indicators included in the original baseline Index release (May 2020) have been adjusted. This further strengthens the Seymour Financial Resilience Index™ model. A debt management composite indicator (#1) has been created, by incorporating the existing indicator (increased borrowing for expenses over the past 12 months) and adding to this financial behaviour reported manageability of a household's debt load. Similarly, a new indicator, confidence in a households' ability to achieve short-term savings goals (indicator #7) has replaced the previous indicator of active saving even if its a small amount, as this has shown to have significantly more impact on a household's financial resilience.

The nine indicators will be set going forward, to enable consistent scoring and tracking of Canadians' financial resilience at the individual household, provincial and national levels.

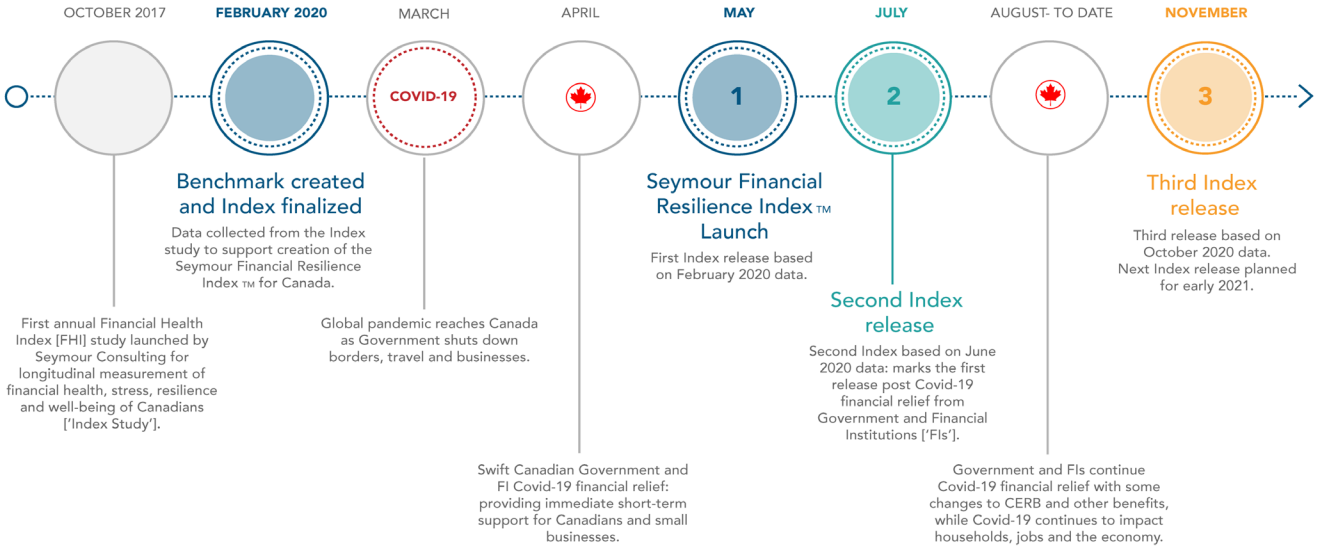
Increased financial vulnerability anticipated for the next Index release

The Index provides a barometer and scoring of the changed financial resilience of Canadians, building on the baseline score of February 2020 (pre Covid-19). This will combine with longitudinal data on the financial health, resilience and well-being of Canadians through the national Financial Well-Being studies and dataset.

Over time, and beyond the longer-term repercussions of the global pandemic impacts, individuals and households may slip into one of the more or less financially resilient segments at different stages of their lives. When households experience setbacks as a result of unplanned life events, stressors or shocks (divorce, illness or reduced employment) they may become more financially vulnerable. Alternatively, households may improve their financial resilience, by modifying their consumption and financial behaviours. In addition, a positive life event (such as marriage, creating a dual-income shared expense household) can improve a household's financial resilience score since last reported.

Methodology

1.Index Development Roadmap



2. Index Development Methodology

The Seymour Financial Resilience Index™ is a regression model with nine indicators, building on four years of longitudinal data from the independent, longitudinal national Financial Well-Being studies.

The Index was developed through an iterative process to regressing and evaluating over 30 potential indicators against self-reported "financial resilience" or "financial stress" measures using the multiple linear regression technique. In the end, nine variables were determined to account for 64 percent of the variance in the financial resilience construct. In social sciences, a R-squared of 0.64 is considered to be a strong model.

All nine indicators are significantly predictors in the regression model with a p-value of less than .01 ($p<.01$), meaning there is one percent chance that these results are accidental.

The regression model was validated against 2017, 2018 and 2019 survey data, which revealed consistency in results, represented both by a strong R-squared as well as similar weights of the independent variables as predictors of financial resilience (note: weightings for the model are based on their overall contribution to the dependent variable in the model and are not equal).

Based on 2017 and 2018 data, six out of nine index model independent variables were avalaible, and in 2019 data 7 of the independent variables were avalaible.

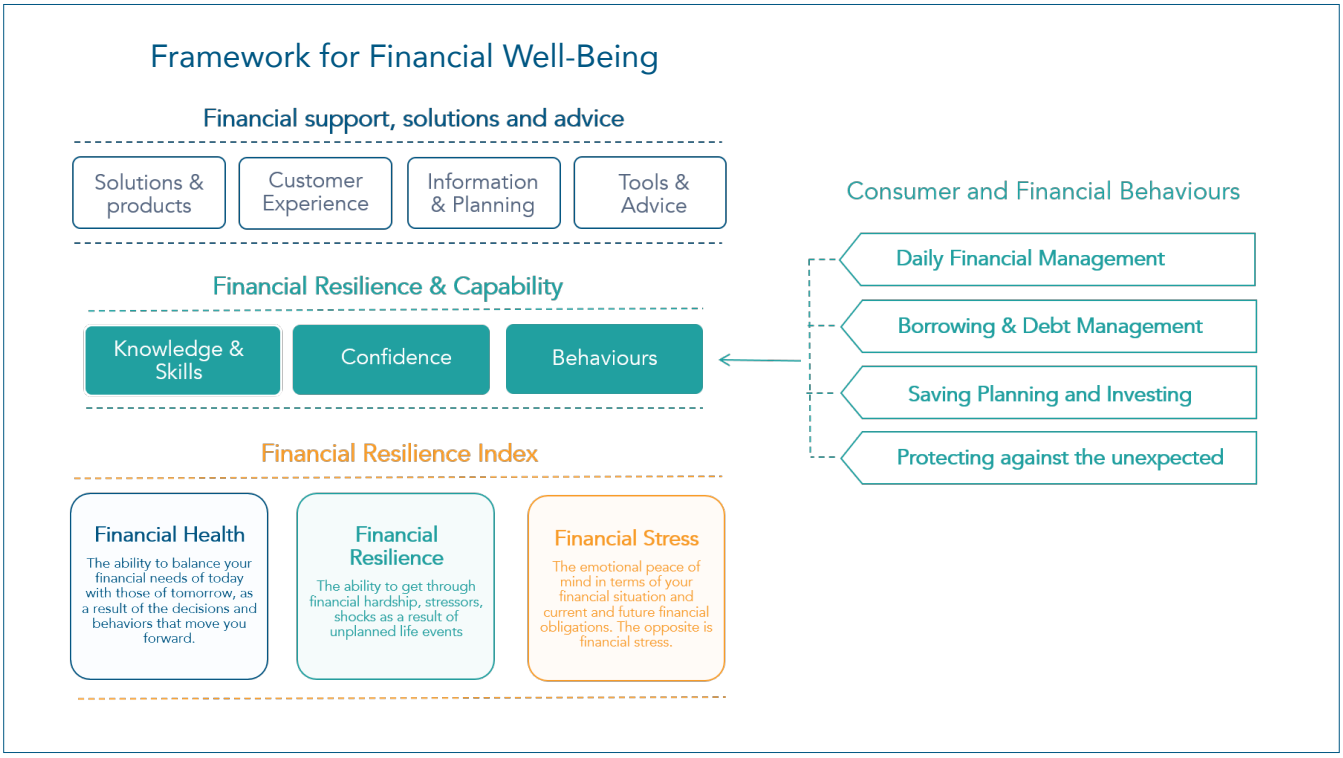
The February 2020 Well-Being study has a sample size of 1013 Canadians aged 18-70 and an Index sample size of 919 adult Canadians. MOE of +/- 3.1% and 95% confidence interval across all provinces.

The June Finanial Well-Being study has a sample size of 4,989 Canadians aged 18-70 and an Index sample size of 4462. MOE of +/- 1.4% and 95% confidence interval across all provinces.

The June Finanial Well-Being study has a sample size of 3016 Canadians aged 18-70 and an Index sample size of 2653 Canadians. MOE of +/- 1.78% and 95% confidence interval across all provinces.

3. Framework and Definitions

The Financial Health Index proprietary framework is summarized below, and was first created in 2016. It is centered on the three inter-related constructs of financial health, financial resilience and financial stress (the opposite being financial wellness) within the over-arching construct of "financial well-being." This framework forms the foundation for the design of the robust Financial Health Index studies, financial health, resilience and stress indicators and the Seymour Financial Resilience Index™.



4. Contributing Consumer Financial Health, Stress and Resilience Data

The longitudinal Financial Well-Being study was first designed by Seymour Consulting in 2016 in line with our framework, with the first baseline longitudinal study launched in 2017.

The study is Canada's most robust longitudinal, national and independent investigation into consumer financial health, resilience and wellness and the role Financial Institutions can play to help improve their customers' financial wellness. Study questions are informed by some of the best-of-the-best financial health, resilience, capability and financial well-being studies around the world in line with our framework, and also focus on the linkage between financial stress (and wellness) and negative impacts on mental and physical health, relationships, productivity for employees and overall personal well-being. Studies are informed by financial health, financial capability, financial well-being and financial resilience research conducted in Canada, Australia, US, UK, Norway, New Zealand and other countries. We continue to consult with financial health experts, academics, professionals working in financial services and others, and to conduct qualitative consumer interviews with Canadians around their financial health wellness for additional insights. The FHI study was developed based on the unique characteristics and nuances of Canada's population, social policies and financial services industry.

Respondents are recruited through the Angus Reid Forum and data is weighted to be representative of the Canadian population by province, gender, age and household income. The Financial Well-Being studies had a sample size in 2017 and 2018 of 5000 adult Canadian financial or joint decision makers aged 18-70 years old, for all provinces excluding Quebec and the Northwest Territories. The 2019 study had a sample size of 3000 Canadians. The 2020 study and all future studies will include a sample for Quebec, allowing the Index to represent all Canadians. The Q1 2020 study was launched as an additional quarterly dip with a sample size of 1000 Canadians in early February 2020 to support the Index development process.

The financial resilience of Canadian households at the individual and aggregate level can be analyzed in many ways through the longitudinal and robust Financial Health Index dataset. For financial institutions, the studies also track how Canadians rate their primary FI for helping to improve their financial wellness.

Some Financial Well-Being Index study indicator questions have been refined over time and in the most recent 2020 dip for the Index, following consultations with academics and experts globally, and deep interviews with Canadians across the country around their financial wellness. Any updates to survey questions have been created to ensure consistency for analysis and tracking purposes. Small business owners and self-employed are included within the studies, with their financial resilience (from a personal perspective) measured against other populations. This is important as the business and personal financial health and wellness of small business owners may be negatively impacted by Covid-19.

The financial vulnerability (and financial resilience) of more vulnerable and/or underserved populations – such as low-income families, Indigenous peoples, single parents and others – can be measured and tracked through the Index.

Understanding and Applying the Index

The Index allows financial institutions, government and organizations to measure, track and understand the financial resilience of their customers, borrowers and citizens over time. Covid-19 has revealed the importance of having pre and post financial shock measurements of financial resilience, to get a more fulsome picture. By applying the Index, our framework and methodologies, we believe organizations can provide more targeted and enhanced support of their customers and stakeholders' financial resilience, including in advance of future shocks.

As we continue to lead customized financial health strategy, measurement and impact projects in line with our mission and vision, we look forward to feedback and discussion with committed organizations about how the Index and framework can add value to their customers, employees, organizations and communities. The coronavirus pandemic is an immediate crisis likely to have longstanding repercussions on the financial lives of Canadians. Collectively, and based on a continuous improvement approach, we can have impact on the financial health and resilience of customers, employees and communities.

At a high level, here are some of the potential applications we see for the Index and framework for key stakeholders:

Government and Policy Makers

The Seymour Financial Resilience Index™ may be used by Government, Think Tanks, Non Profit Organizations and other organizations with a goal to shape social policy, programs and interventions for Canadians, including more vulnerable populations.

These include for households in the most extreme sub-segment of "Extremely Vulnerable" (with a score of 1-19), who may have lower household incomes or who many face other barriers causing hardship. There is an opportunity to build not only financial resilience with these populations through target policies and support, but also to promote financial inclusion and empowerment. This includes through enhanced cross-sector collaboration and program support.

From a government policy perspective, the Index may be used to aid investigation and policy exploring ways that citizens in the "Approaching Resilience" segment may be better supported or nudged to move into the "Financially Resilient" segment. A small nudge to move "Approaching Resilience" households to "Financial Resilient" can free up substantial resources for those in the more vulnerable categories.

Financial Institutions, Lenders, Financial Planners and other organizations supporting Canadians

Financial Institutions, Lenders, Payment Organizations, Fintechs, Wealth Management Companies and other organizations supporting customers can understand, measure and track the financial resilience of their customers and prospective customers, compared to Index benchmarks. Customers' mean financial resilience scores and many other insights on customers' financial resilience and well-being can be contextualized by the benchmark data from the Index for organizations' provinces or market territories and key target segments.

The Index provides a new lens of understanding for customers and households that goes beyond peoples' financial assets, credit score, delinquency rates or financial product holdings. The Seymour Financial Resilience Index™ and Financial Well-Being non-traditional data can be combined with traditional credit scoring models, financial, customer, payment and transactional data gathered by traditional and non-traditional financial institutions, lenders, wealth management providers, insurance companies and other organizations. This can support an enhanced understanding of their customers (and prospects) financial resilience (at different levels) and inform more targeted credit and risk management strategies, tailored customer experiences, enhanced financial product and service offerings, advice and customer relationship management.Financial relief programs and flexible solutions provided to customers facing financial hardship as a result of Covid-19 may also be tested out and/or enhanced over time, to help customers build their financial resilience over the medium to long-term, and throughout the customer banking relationship. Banks and credit unions can also measure the extent to which they have helped to improve the financial wellness of their customers over time compared to tier one banks and other organizations.

Resilience Segments for Canada's Big Five Bank Brands

For credit agencies, lenders and financial institutions, we see the potential for the Financial Resilience Index™ and Financial Well-Being data to complement traditional credit scoring models and others linked to credit health. For example, self-reported sentiments and behaviours reported in the trended Financial Well-Being data, and the household's financial resilience score can be connected to a person's credit score and "hard" payment or banking data: for a more complete three-dimensional view. This helps to provide richer (and more forward-looking) understanding of consumers' and borrowers' financial and debt stressors, their financial resilience (and vulnerabilities) and opportunities for more targeted support.

This in turn enables enhanced data analytics, predictive modelling, forecasting and opportunities for engagement, product and service bundling and offers; customized solutions or advice by committed organizations – allowing FIs and lenders to help support their customers' financial resilience and wellness and in tandem, to strengthen relationships.

More financially resilient borrowers can also reduce credit risks for lenders, and financial health and resilient data and models can support lenders and FIs in their credit and risk strategy playbooks, forecasting, product and portfolio management - including as borrowers apply for and/or use different credit products, and manage their credit and debt in different ways.

Non-Profit Organizations and Social Enterprises

The Index shines a light on the financial vulnerability, financial stressors ,needs and challenges of more vulnerable and underserved populations, including linked to access to financial services, products and help or to financial and systemic barriers facing these populations. This enables enhanced impact measurement and insights for Not-for-Profit organizations working to support these populations from a financial literacy, financial empowerment, financial inclusion and/or a financial well-being perspective, while helping them to understand opportunities for more targeted support and impact.

Businesses and Employers

Businesses and employers can lever the Index to understand their employees, customers and communities based on their financial health and resilience challenges. We believe that this can help them to improve their offerings, pricing strategies and the overall customer experience. They can also measure and improve their employees' financial resilience, while tracking improvements to employee engagement, productivity and well-being through their organisations and over time.

Empowered Individuals, Families and Communities

As people are becoming more empowered to think about their financial health and wellness as the traditional banking industry transforms, we envision a future where people are engaged, supported and empowered to manage and build (or maintain) their financial resilience through their life, and in ways that matter to them. This can support financial empowerment, financial inclusion for those who face barriers and to ultimately help to build healthy communities.

The changing financial services landscape is showing us how there are many ways to make transactions, payments and financial health and resilience management and innovation easier and smarter. We see significant potential applications to integrate tracking of customers' financial health and resilience with new technologies and offerings: also incorporating AI, digital solutions; behavioural finance, advice-based support and financial expertise. FIs and other organizations can certainly invest in financial health product and service innovation to help their customers and employees think about (and potentially adjust) their money habits, spending and behaviours - in ways that link to their life and financial goals.

Such innovation can create win-win solutions while 're-inventing banking'. And more financially healthy, resilient and supported customers lead to strengthened relationships, brand loyalty and to an increased share of wallet, as proven through the FHI studies since 2017.

We are already starting to see that some Canadians have already started to rethink, change or cut back on certain spending habits as a result of Covid-19 impacts, as we experience social isolation, new ways of working and living, think about the future, face hardship and/or change our routines. The concept of building one's financial resilience has never been more critical. As we enter into a "new normal", there will certainly be opportunities to help people build their financial resilience now and into the future. This includes low income households, newcomers to Canada, Aboriginal populations; women; single parent households; small business owners; the under-employed; people lacking social capital; and our future generations.

Helping Canadians to improve their financial resilience can help change lives. We look forward to partnering with you on this important and pertinent issue for Canada.

Seymour CONSULTING

Why we've launched the Seymour Financial Resilience Index™

A letter from the CEO and Founder, Eloise Duncan

Why have we worked to develop this Index, and why is it being launched now?

Covid-19 has already caused the first coordinated global economic shutdown in history. Here in Canada, the health pandemic has shocked our national economy and thrown the lives of many into a tailspin. Although still early in terms of cumulative fallout, we can see that financially, some Canadians are faring far better than others. Our trended data shows that the financial health and resilience of Canadians was fragile at best for many Canadians even before the economic shock caused by Covid-19. [1]

In other words, some segments of Canada's population have the financial resilience to weather unplanned life events—financial stressors, shocks and hardships such as this one—whereas others do not. Traditional financial and credit score measurements fall short at showing us how Canadians are really doing financially because they're missing a key component: household financial resilience. We created the Seymour Financial Resilience Index™ to address this gap.

Helping to measure, track and build the financial resilience of Canadians

We are proud to announce that the new Seymour Financial Resilience Index™ launches today. The Index measures financial resilience in Canada across nine behavioural, sentiment and resilience indicators.

It enables organizations to measure and track financial resilience over time and at the individual, segment, provincial and national levels. The Index can be a forward-based indicator that as a result of showing changes in measured consumer and financial behaviours could explain slowdowns in spending, increased savings, and their effects on debt repayment and consumption.

With the global financial stress and shock caused by Covid-19, now is the time to launch this Index with urgency, in order to support financial institutions, government, business leaders and organizations to positively impact the financial lives of Canadian customers, employees and communities at scale.

Based on the baseline Index and February 2020 data, the average national financial resilience of Canadians is 49.58. This means that overall our citizens are 'Financially Vulnerable' as a nation, before the Covid-19 crisis affected our country. We expect the Financial Resilience Index to show increased financial vulnerability in the next Index release in the summer.

The nine indicators are based on longitudinal national data from the annual Financial Well-Being studies for Canada, conducted annually with a weighted representative sample of 3000 to 5000 Canadians across all provinces excluding Quebec since 2017. The 2020 study and all future studies, conducted through the Angus Reid Forum, will include Quebec, allowing the Index to represent all Canadians across every province for tracking in the future. The regression model was validated against 2017, 2018 and 2019 survey data, which revealed consistency in results and a strong model.

The Seymour Financial Resilience Index™ was created specifically for Canada and is based on the unique characteristics and nuances of Canada's consumers, social policies, provincial differences and

financial ecosystem. That being said, the Index and indicators may have value around the world, as countries work individually and collectively to support the financial health and resilience of their citizens.

We believe passionately in the importance of financial health and resilience for all. Covid-19 has created a "reset opportunity" and fresh view towards new models and approaches. Our intention is that this Index helps ignite reinvented financial health and resilience measurement, financial services re-invention, and new policy development to support struggling and vulnerable Canadian households. We see an opportunity to build on the strengths of Canada's social policies, strong financial ecosystem, values-based society and deep-rooted belief in the importance of equality and on the social justice for all.

Together, we can support people with challenged financial resilience – not just in response to the crisis of Covid-19, but as a medium to longer term strategy for our country and future generations. Canada can lead the way in working to measurably improve peoples' financial resilience in ways that matter, while building on our strengths. We invite you to join us in supporting the financial resilience of Canadians and people around the world, to help people live their best lives. People deserve to get through times of financial hardship, to realize their life and financial goals, and to thrive—today and for generations to come.

Eloise Duncan
CEO and Founder, Seymour Management Consulting Inc.

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