

Measuring Small Business Financial Health with Cash Flow Data

A New Approach to Understanding Small Business Resilience and Growth

FinRegLab has released a new market context report, [Measuring Small Business Financial Health With Cash Flow Data](#), that proposes a framework and set of metrics for defining and measuring small business financial health using digital bank account data. The report kicks off a broader initiative focused on advancing the measurement of small business financial health.

The United States is currently experiencing a period of record small business formation, with as many as 500,000 new businesses launching every month. Small businesses play a critical role in job creation, local and national economic activity, and household financial opportunity, particularly for entrepreneurs in low- and moderate-income (LMI) communities. At the same time, many early-stage businesses face significant cash flow volatility, uneven revenues, and limited financial buffers. These dynamics can make it difficult to manage day-to-day operations, withstand financial shocks, and invest in growth.

The report and broader research initiative examine how financial health frameworks and metrics derived from bank account data together can provide more timely and comprehensive assessments of business performance and resilience. This approach could enable financial institutions to design products that better align with observed cash flow patterns, identify emerging risks earlier through transaction-level signals, and adjust support during periods of volatility. For CDFIs, more consistent and data-driven measurement could strengthen impact evaluation and enable more targeted allocation of capital.

Surveying the Landscape

The report analyzes the development of financial health frameworks and measurement programs. Key findings include:

- **Historical challenges with data analysis for small businesses have left critical gaps in how stakeholders understand and serve this sector.** One-time underwriting assessments commonly used by financial institutions are designed to predict default risk from new loans and do not provide a full picture of small business financial standings.
- **Financial health frameworks provide a more comprehensive lens for understanding small businesses,** expanding beyond credit risk to include dimensions such as stability, resilience, growth, and income generation. However, financial health frameworks focusing on small businesses are less common than those focusing on consumers and households.
- **Transaction data potentially offers significant advantages to traditional survey-based measures of financial health,** including the ability to obtain insights about a broad range of customers without requiring their active participation in data collection as well as real-time visibility, greater granularity, and the ability to track businesses' financial conditions longitudinally.
- **Metrics derived from cash flow data can capture meaningful small business financial health indicators,** such as revenue volatility, liquidity buffers, and signals of financial stress or growth.

- **CDFIs provide a strong starting point for testing and application**, given their role in serving smaller and underserved businesses, their focus on borrower outcomes, and their use of global cash flow underwriting that considers both business and personal finances. Electronic bank account data offers potential advantages to historical outcomes measurement practices.
- **The broader spectrum of financial institutions may face challenges in implementing financial health measurement**, including organizational, data infrastructure, and resource prioritization constraints.
- **More robust financial health insights could create strategic value for institutions** by supporting customer acquisition and retention, enabling more tailored product design, and improving risk management through earlier identification of financial stress.

Proposing a New Framework and Metrics for Testing

To lay the groundwork for the forthcoming research, the report proposes a conceptual framework that defines financial health as the extent to which small businesses can sustainably manage day-to-day expenses, withstand volatility and financial shocks, pursue growth opportunities, and generate reliable income for business owners. This definition is designed to reflect the realities of smaller and younger businesses, for which cash flow volatility and the intersection of business and household finances are central.

The report outlines a set of candidate metrics derived from transaction data—including measures of revenue and profitability, liquidity management, savings, debt use, and income generation for business owners—that will be tested in the next phase of research. The empirical research will also evaluate how transaction data can complement or replace traditional data sources such as customer surveys, tax records, and credit reports.

Future Workstreams

The forthcoming quantitative research will test the proposed financial health metrics (along with others) using transaction data, with a focus on understanding how financial products and capital influence business outcomes over time. The research will also explore connections between small business performance and household financial health, particularly for entrepreneurs in LMI communities.

In parallel, FinRegLab will engage stakeholders across financial services, small business support organizations, and the financial health and impact measurement community to explore how these approaches can be applied in practice and integrated into business and policy decision-making. The project may lead to additional workstreams, such as further testing of financial health metrics with larger financial institutions to study patterns among different small business segments, and exploration of how small business financial health insights may inform the design of specific financial products and services.