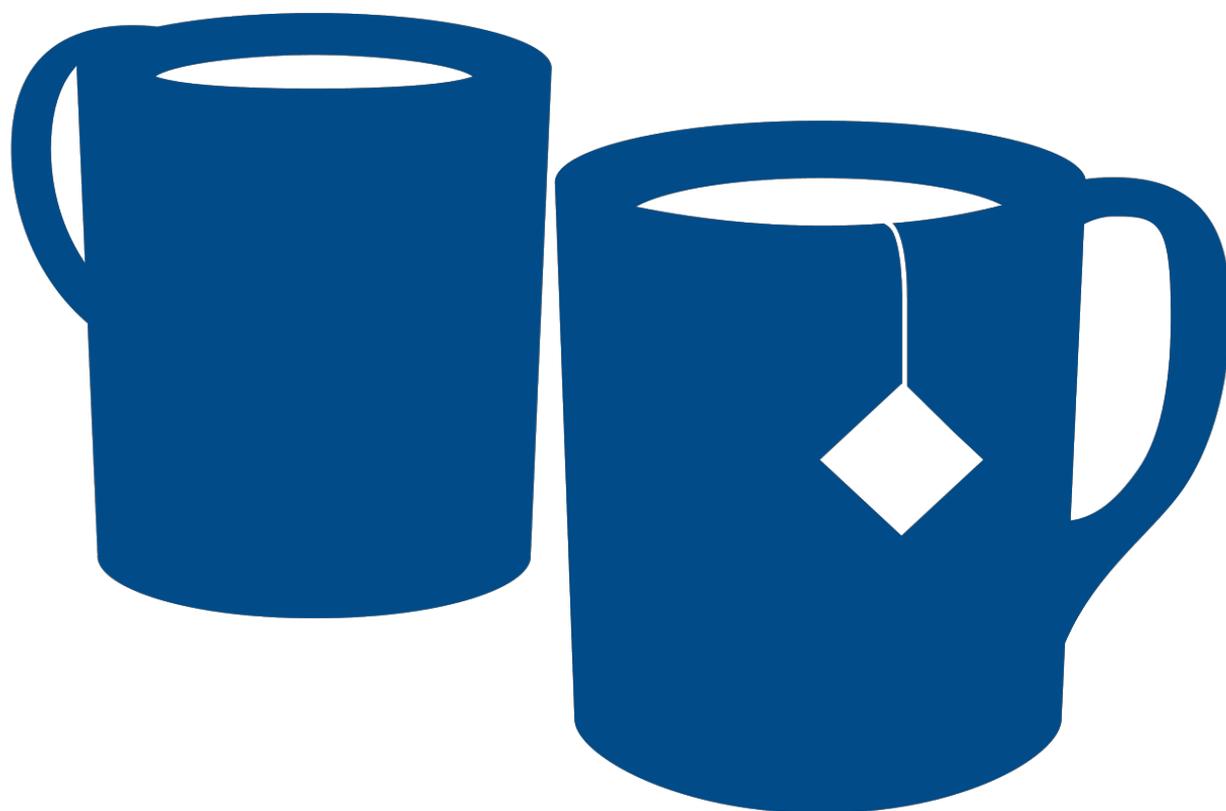


Financial Capability

A review of the latest evidence - May 2015



**citizens
advice**

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Introduction

The aim of this review is to develop a sound knowledge base around the subject of financial capability grounded in recent developments in the UK from a conceptual, policy and practice perspective. It seeks to build a strong understanding of the main financial capability evaluations that have already taken place and gather any learning we can use to develop Citizens Advice's framework to evaluate the financial capability of our clients.

Methodology

A Rapid Evidence Assessment (REA) approach was undertaken for this review. REAs are defined by the Government Social Research Service as a *'Quick overview of existing research on a (constrained) topic and a synthesis of the evidence provided by these studies to answer the REA question.'*¹

The review was carried out using the following steps:

1. Developed an analytical framework² to provide a structure for the analysis of the texts. This included an assessment of the 'standard of evidence' using the same approach as the UK Financial Capability Strategy's evidence hub.³
2. Created the following search terms for gathering relevant evidence:

Search terms	
Level 1	Level 2
financial capability	measures; evaluation; indicators; health; behavioural economics

3. Searched for evidence using the above search terms, this was restricted to the Google search engine, mainly UK based work up to 10 years old.
4. Evidence gathered was sifted by quickly scanning the material and organising it into folders labelled 'priority' and 'additional' depending on the extent to which they met the objectives of this review.
5. 20 priority texts were gathered including:⁴
 - a. Academic papers and research
 - b. Organisational research
 - c. Policy papers
 - d. Grey literature.
6. Reading of priority evidence, whilst simultaneously completing analytical frameworks and writing any additional relevant notes.
7. Collation and thematic analysis of the analytical frameworks using Nvivo.
8. Write-up summarising findings from the reading.

¹<http://www.civilservice.gov.uk/networks/gsr/resources-and-guidance/rapid-evidence-assessment/what-is>

² See [Appendix](#)

³ <http://www.fincap.org.uk/evidencehub> accessed on 30/04/15

⁴ See [Bibliography](#)

Key statistics

- In 2014, 81 per cent of local citizens advice centres were doing some financial capability work. There are 256 local Citizens Advice centres doing or planning financial capability work in 2015.⁵
- In 2014, over 175,500 people benefited from financial skills training delivered by local Citizens Advice centres. Over 47,100 people received direct (face-to-face) training. An estimated 128,400 people will have benefited through the 'cascade' effect from frontline workers to their clients.⁶
- According to the Money Advice Service's national survey of financial capability in 2013, people fall into four categories in terms of their money habits, some can fall into more than one category⁷:
 - a. 9 million are in need of urgent help with managing money. They tend to be younger than average, 42% run out of money before they get their next pay cheque. Almost a third fall behind on bills and other commitments and have real financial problems.
 - b. 9.5 million are 'on the edge' and showing signs of beginning to struggle. They are sensitive to changes in circumstances and less organised at managing money. Over a fifth run out of money before their next pay cheque. This group are more likely to have loans, of the payday, mail order or personal varieties.
 - c. 13 million focus on the now rather than the future. This group are both young and old, have low take-up of contents insurance and life insurance and tend to manage their money day-to-day.
 - d. 17 million have healthy finances, tend to be older with an average age of 50, attended university, have a high take-up of insurance products, low take-up of payday loans and are very organised money managers.
- Changes in income are associated with changes in financial capability that are significantly different from average, i.e., a fall in household income often results in reduced financial capability while an increase tends to lead to improvements in financial capability.⁸ This chimes with the the fact that

⁵ Citizens Advice (2015) *Financial capability survey snapshot 2014*. Citizens Advice, p.1.

⁶ Citizens Advice (2015) *Financial capability survey snapshot 2014*. Citizens Advice, p.2.

⁷ Numbers are based on extrapolation of statistically significant survey data.

⁸ Taylor, Mark., Stephen Jenkins and Amanda Sacker (2011) *Financial capability, income and psychological well being*. Institute for Social & Economic Research Council, p. 9.

having a low income tends to mean a person has low financial resilience, as the following point illustrates.

- As part of a piece of qualitative research MAS commissioned in 2015, it was found that people on very high or low incomes are invariably on the corresponding top or bottom of the financial wellbeing staircase because of the way their income affected their resilience to financial shocks, i.e., their ability to save and adjust their spending.⁹
- Improvements in financial capability have far more of a positive impact on people's psychological well being than increases in household income and material well being. Financial capability also increases people's resilience to challenging life events such as divorce and unemployment.¹⁰
- Moving an individual with relatively low levels of financial capability to an average level of capability improves their psychological well being by about 6% (compared to an 8% deterioration in well being associated with being divorced, and a 10% deterioration from being unemployed).¹¹
- The UK Financial Capability Framework's evidence hub contains 36 research studies. Of those, only one US-based intervention model has so far been found to be consistently effective, 14 have shown interventions to be effective, 9 of which are international. The remaining 5 are UK-based evaluations, which come from Citizens Advice, the FSA (now the FCA), the Money Advice Service and MyBnk.¹²

⁹ TNS BMRB (2015) *Financial Capability and Wellbeing*. The Money Advice Service.

¹⁰ Taylor, Mark., Stephen Jenkins and Amanda Sacker (2011) *Financial capability, income and psychological well being*. Institute for Social & Economic Research Council.

¹¹ University of Essex (2009) *Financial capability and well being: Evidence from the BHPS (British Household Panel Survey)* Financial Services Authority, p.6.

¹² <http://www.fincap.org.uk/evidencehub> accessed on 30/04/15.

Advice and financial capability

In terms of the role of the advice sector in financial capability, a majority of commentary came from the Money Advice Service in the texts that were reviewed. In 2008, the FSA¹³ talked about the crucial role of advice when people are in a crisis in relation to their finances, however recommended that the key to improving financial decision making lies in changing the way financial institutes are designed and regulated. The FSA saw this to be more effective than improving financial capability knowledge through education. Since then, the focus has somewhat changed with the Money Advice service taking over a leading role in driving forward the UK Financial Capability Strategy.

In the Draft UK Financial Capability Strategy¹⁵, the Money Advice Service discusses the role of advice in supporting people's financial capability, reviewing existing services that already do this and providing recommendations for service development. This includes focussing on better meeting the needs of different groups such as those who are financially excluded, children and young people, those preparing for later life, older people in retirement and people with financial difficulties.

Another key recurring recommendation from the strategy is for the advice sector to work together with other organisations and sectors, such as housing associations, financial services, creditors and public services, to extend financial capability services and coordinate research and evidence gathering about best practice.

“Being able to manage debt and other financial problems during a prison sentence or upon release into the community could help to reduce re-offending.

Many bureaux are already working with local prisons and probation teams to provide advice to offenders and ex-offenders”¹⁴

¹³ London School of Economics (2008) *Financial Capability: A Behavioural Economics Perspective*. Financial Services Authority, p.4.

¹⁴ Consumer Financial Education Body (CFEB), Ministry of Justice National Offender Management Service, Citizens Advice Bureau (2010) *Improving the financial capability of offenders - A guide for Citizens Advice and others*. Consumer Financial Education Body, p.4.

¹⁵ The Money Advice Service (2014) *Financial Capability Strategy for the UK: The Draft Strategy*. The Money Advice Service, p. 6 & 21-31.

Research commissioned by the Money Advice Service this year¹⁶ looks at financial capability and well being, and found that most of the participants rarely sought help after experiencing a financial shock. Advice was seen by them as more appropriate for people in 'real debt' and for those who have limited experience of everyday budgeting. Rather, it was felt that there should be more proactive, targeted and tailored advice and information available to help them deal with financial shocks, via trusted intermediaries, such as employers, doctors and lawyers.

¹⁶ TNS BMRB (2015) *Financial Capability and Wellbeing*. The Money Advice Service, p.6 & 9.

Evaluating financial capability

A range of evaluation models and indicators have already been developed by organisations to track people's progress following financial capability related interventions. This section gives a flavour of the different approaches taken by the main sector leaders in the UK.

The UK Financial Capability Strategy

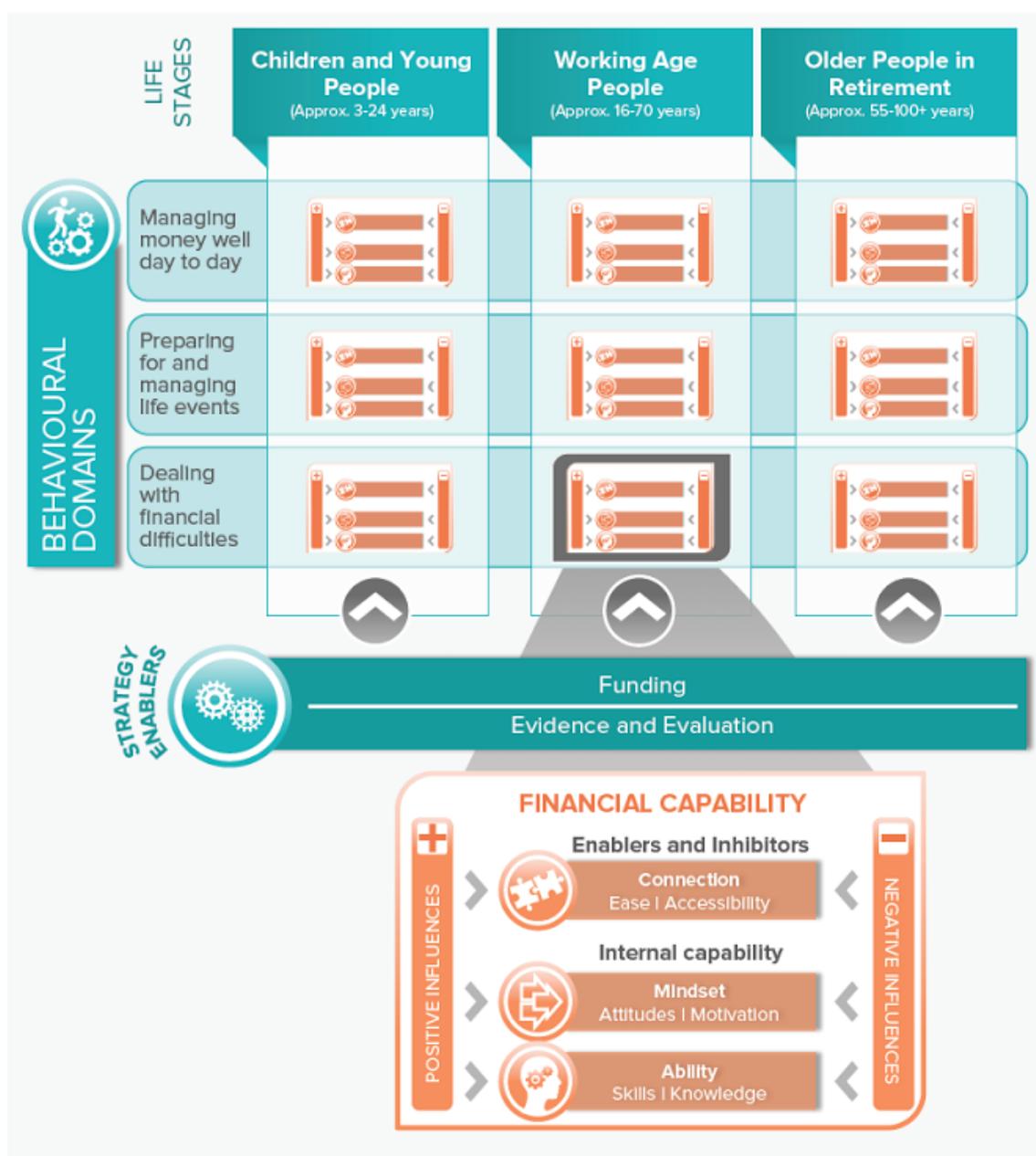
The current UK Financial Capability Strategy is led by the Money Advice Service and is still under development. It includes an evolving framework for measuring and tracking financial capability outcomes. The framework gives a sense of the general domains that should be evaluated, broken down by socio-economic age group, and is intended to help those providing financial capability services coordinate their evidence gathering and evaluation strategies (figure 1).

It is worth briefly considering the process through which the framework went to get to its current stage. Originally, the Financial Services Authority launched a national strategy for financial capability in 2003 which led them to commission a large-scale national baseline survey in 2006, measuring people's financial capability in the UK¹⁷. This survey was pivotal in kick-starting the development of indicators to measure people's financial capability over time. It was done through a process of reviewing existing literature and research evaluating financial capability, conducting focus groups exploring people's perceptions of financial capability, developing questions based on this and cognitive testing of the questions. Based on this the FSA identified four domains of behaviour that act as indicators for financial capability:

- **Managing money** - record keeping and knowing where you are with your finances, planning for 'lumpy' expenditure, such as quarterly or annual bills and living within one's means.
- **Planning ahead** - how people deal with unexpected drops in income, unexpected expenses, anticipated expenses and retirement.
- **Choosing products** - how people monitor the products that they hold and choose products.

¹⁷ University of Bristol (2006) *Levels of Financial Capability in the UK: Results of a baseline survey*. Financial Services Authority.

- **Staying informed** - how people keep abreast of changes, use information and advice and deal with complaints.



▲ Figure 1: The latest Financial Capability Strategy Framework¹⁸

It was not until 2013 that a similar survey of the UK’s financial capability was commissioned by the Money Advice Service,¹⁹ which happened prior to their taking over the development of the UK Financial Capability Strategy from the FSA in 2014. This survey used indicators based on some of the questions from the FSA’s 2006 baseline survey so that any changes over time could be tracked, however many of these were remodelled to suit the new online environment of the survey. Additional

¹⁸ The Money Advice Service (2015) *The Consultation Response and Next Steps, Financial Capability Strategy for the UK*, The Money Advice Service, p. 26.

¹⁹ Ipsos MORI, The Money Advice Service (2013) *The Financial Capability of the UK*. The Money Advice Service

questions related to online and general attitudes and behaviours were included to reflect recent developments in technology and financial capability research. Cognitive testing and pilot surveys were then used to ensure the questions were appropriately worded, resulting in these five domains for measuring financial capability:

- **Knowledge** - of financial markets, sources of advice and support, what is required of new life situations and events, welfare and tax credits systems.
- **Skills** - ability to identify balance on statement, mathematical planning, self-control, decision making, problem solving, emotional cognitive and behavioural skills, capacity to engage in necessary thought processes for financial management, understanding of inflation and interest rates, comparing savings products for the best returns, planning, shopping around.
- **Attitudes** - underlying beliefs and values in relation to managing money, distinction between luxuries and essentials, living for today or planning for tomorrow.
- **Motivation** - reflective or conscious mechanisms that drive behaviour, automatic or unconscious mechanisms that drive behaviour, influence of incentives, making a commitment, emotional priming.
- **Opportunity** - prompts that make possible certain types of behaviour in relation to finance, social opportunity from networks of family, friends and colleagues and how that impacts on availability of financial advice.

These five domains were used as the basis of MAS's first iteration of the UK Financial Capability Strategy in 2014²⁰, which was then developed into the most recent evaluation framework seen in Figure 1 above, following a consultation with experts and organisations delivering services in the area of Financial Capability.

Evidence Hub

As part of their role in developing the UK Financial Capability Strategy, the Money Advice Service have set up an evidence hub of all the key latest pieces of research that evaluate the impact of different types of interventions in the area of financial capability. In the evidence hub²¹, each study is graded according to the strength of their evidence, which effectively provides an evaluation framework for organisations such as Citizens Advice, who may want to have their work showcased on this hub. The grading is done using a standards of evidence scoring system developed by the Early Intervention Foundation and Nesta (figure 2).

²⁰ The Money Advice Service (2014) *Financial Capability Strategy for the UK: The Draft Strategy*. The Money Advice Service

²¹ http://www.fincap.org.uk/evidence_hub accessed on 6/5/15

Evidence Level	Name	Description
●●●●	CONSISTENTLY EFFECTIVE	There are multiple high-quality independent evaluations* showing consistently positive impacts
●●●○	EFFECTIVE	There is a single high-quality evaluation* showing a positive impact
●●○○	POTENTIALLY EFFECTIVE	There is/are lower-quality evaluation(s)** showing a positive change amongst programme participants, but the evaluation cannot confirm that the programme caused this
●○○○	THEORY-BASED	The programme had a logic model (description of the activities taking place and how it may achieve the intended outcomes) and testable features, but no evidence of impact yet
○○○○	UNSPECIFIED	The programme has no logic model, testable features or evidence of impact
○	INEFFECTIVE	There is evidence from at least one high-quality evaluation* or a meta-analysis that shows no positive impact

▲ Figure 2: MAS standards of evidence table²²

This standards of evidence system rates a high-quality evaluation as one that uses a random controlled trial approach with a control or comparison group, or a quasi-experimental approach (eg. propensity score matching, matched areas, difference-in-differences), with sample groups of at least 50 participants per sub-group, and results tested to be found statistically significant. This is classified separately to the effectivity of the intervention. Lower-quality evaluations are regarded as those which explore outcomes in the groups receiving an intervention, but do not have a control or comparison group.

Citizens Advice

Citizens Advice already have a good basis of research and evaluation evidence in relation to financial capability, from an annual financial capability survey, feedback from local Citizens Advice, case studies, internal and external evaluations.²³ Most of our internal evaluative work has focussed on measuring financial capability across the following outcomes indicators:

- Keeping track and staying in control.
- Budgeting.
- Banking and paying bills.
- Staying informed.
- Confidence and skills.
- Taking action.

One notable external evaluation commissioned by Citizens Advice was a random controlled trial conducted by The University of Bristol's Personal Finance Research

²² http://www.fincap.org.uk/standards_of_evidence accessed on 7/5/15

²³ Citizens Advice (2013) *Financial Capability and Citizens Advice Reach and Impact*. Citizens Advice and Prudential.

Centre in 2012.²⁴ Using a range of methods such as a baseline and follow-up surveys, in-depth qualitative interviews and self-completion questionnaires, the evaluation assessed the impact of financial skills training on tenants of a housing association. There was found to be a huge positive impact across a range of indicators, which were grouped into the following three domains:

- **Making ends meet** - being organised at managing money, keeping up with bills and commitments.
- **Keeping track of finances** - planning spending, knowing how much money you have at present excluding savings, keeping a record of day-to-day spending.
- **Changes in financial confidence** - confidence in ones' money management skills, feeling in control of finances, feeling of security in relation to finances, level of worrying about money, confidence in choosing financial products.

Other behaviours measured also included whether participants took action in relation to money matters following the training and what that action looked like, banking behaviours such as opening an account, borrowing and savings levels, levels of rent arrears and usage of the tools and materials given during training.

In terms of how Citizens Advice have developed their financial capability outcomes indicators to date, these have mainly been based on the domains that came out of the FSA's 2006 baseline survey, the content of Citizens Advice interventions e.g., learning outcomes developed for training, internal work done by Citizens Advice's financial capability team of experts and through consultations with frontline workers from local Citizens Advice centres.

Consumer Financial Education Body

Before becoming the Money Advice Service, the Consumer Financial Education Body carried out a range of research projects in the field of financial capability. Their two most prominent studies were reviewed, the first being *Improving the Financial Capability of Offenders - A guide for Citizens Advice and others* (2010)²⁵, which provides good practice guidance and case studies for improving offenders' financial capability as a means of reducing reoffending. It suggests that one of the main indicators for improved financial capability in these cases is when an offender responds to an intervention with an action, such as paying off their debts or fines. Other than that the study relies on self-reported improvements in knowledge and confidence in financial capability.

²⁴ Collard, Sharon., with Andrea Finney, David Hayes and Sara Davies (2012) *Quids in: The impact of financial skills training for social housing tenants*. Personal Finance Research Centre, University of Bristol.

²⁵ Consumer Financial Education Body (CFEB), Ministry of Justice National Offender Management Service, Citizens Advice Bureau (2010) *Improving the financial capability of offenders - A guide for Citizens Advice and others*. Consumer Financial Education Body.

The second study is entitled *Transforming Financial Behaviour* (2010)²⁶ and looks at evidence from the field of behavioural sciences to see how this can be used to change people's financial behaviours. It identifies indicators that help measure how someone's financial behaviours have changed, drawing from the FSA's 2006 baseline survey²⁷, the one difference being that they separated out the money management indicator into two separate indicators (1&2) to reflect the FSA's developing strategy²⁸ at the time:

1. Making ends meet.
2. Keeping track of your finances.
3. Planning ahead.
4. Choosing financial products.
5. Staying informed about financial matters.

Toynee Hall

Toynee Hall have long been prominent in the field of financial capability since it rose up on the national agenda, because prior to that they had a strong base in the related fields of financial inclusion and literacy. In 2008, along with the FSA and the National Housing Federation, Toynee Hall produced a detailed guide for landlords and frontline workers in housing, setting out practical ways to improve tenants' financial capability.²⁹ Each chapter of the guide corresponds to an area of financially capable behaviour, and includes activities and learning objectives to improve these. Thus each chapter also embodies an indicator of financial capability, specifically in relation to tenants:

- **Budgeting** - importance of budgeting, regular and irregular sources of income, different types of expenditure, welfare benefit support and gains from working, that value of written records of expenditure and income, support available in times of difficulty.
- **Paying the rent and setting up a home** - pre-tenancy and tenancy sign-up, paying the rent, changes to circumstances, moving on, responding to difficulties and making a complaint.
- **Opening and using a bank account** - different payment methods, managing accounts, account and promotional information, security issues, confidence in knowing the procedures, comparing account types, checking statements, making a complaint.
- **Saving** - reasons for saving, different ways to save, issues in managing savings, comparing types of saving products.

²⁶ Elliott, Antony., Paul Dolan, Ivo Vlaev, Charles Adriaenssens & Robert Metcalfe (2010) *Transforming Financial Behaviour: A Summary*. Consumer Financial Education Body.

²⁷ University of Bristol (2006) *Levels of Financial Capability in the UK: Results of a baseline survey*. Financial Services Authority.

²⁸ Financial Services Authority (2006) *Financial Capability in the UK: Delivering Change*. Financial Services Authority.

²⁹ Hopkins, Nick., Clair Malpas, Francesca Hopwood Road (2008) *A Guide to Financial Capability for Social Housing*. National Housing Federation and Toynee Hall.

- **Borrowing** - reasons for borrowing, different sources of borrowing, cost of borrowing, risks and responsibilities, benefits and disadvantages, implications of being in debt, budgeting to repay a loan.
- **Understanding welfare rights issues** - knowing the benefits system and its different parts, process of making a claim, sources of information and advice, benefits available, triggers and changes to circumstances, benefits myths, challenging decisions.

These indicators have been developed according to the different types of financial behaviours that are relevant to tenants specifically, and beneath each activity falls a set of indicators related to the knowledge and skills required by tenants to be able to exhibit each behaviour effectively.

In a more recent think-piece from 2013, *Financial inclusion and financial capability: what's in a name?*³⁰, Toynbee Hall go into further detail about their definition of financial capability, setting out its relationship with financial inclusion and exclusion. Here they maintain that financial capability and financial inclusion are mutually reinforcing concepts that work best when taken together. In the report, Toynbee Hall provide a high-level definition of Financial Capability as:

- Confidence and motivation in combination with financial knowledge and skills.
- Development of financially capable behaviours.
- Putting financially capable behaviours into practice.

They breakdown the definitional elements into:

- **Confidence and motivation to:** plan ahead, find information, participate in financial matters, take responsibility of financial affairs, choose products and services to meet one's needs.
- **Knowledge and skills to:** plan ahead, know when to seek advice and understand how to apply it to your own life, manage your money, understand your own financial circumstances, make informed decisions about budgeting, borrowing, saving and banking, particularly adults on low income or at risk of social or financial exclusion, participate in financial matters, take responsibility of financial affairs, choose products and services to meet one's needs, access products that work for you, prevent yourself getting into financial difficulty.
- **Behaviours:** managing money effectively on a day-to-day basis, planning for the future, coping effectively with financial distress, acting on advice, taking control of your finances, finding and using information, participating in the financial services market.

³⁰ Aynsley, Helen (2013) *Financial inclusion and financial capability: what's in a name?* Toynbee Hall.

In collaboration with Citi foundation and NatCen Social Research, Toynbee Hall have developed an online MAP tool³¹ to help organisations measure people's financial well being before and after an intervention. The tool aims to holistically assess a person's financial well being across these eight key areas:

- **Financial Products and Services:** information on what financial products and services the individual is currently using and how they are using them.
- **Income and Expenditure:** the individual's source of and amount of income, what it covers and whether it is sufficient.
- **Debt:** whether or not an individual owes any money, who they owe that money to and whether or not their repayment situation is sustainable.
- **Capability:** how an individual manages their money, chooses financial products and if they know where to go to access help and advice.
- **Attitudes:** third person stories to capture an individual's attitudes in key areas such as credit, debt and shopping around.
- **Resilience:** information about an individual's financial past, present and future and how protected they are against future financial hardship.
- **Broader Wellbeing:** how an individual's financial situation affects their relationships, health and employment situation.
- **Demographics:** basic background information on the individual to build up an overall picture of their situation and flag up potential barriers e.g., disability, literacy or numeracy issues.

The MAP tool takes financial capability as one element of the broader financial well being it is measuring, whilst separating out issues like income, expenditure and attitudes from financial capability, which is a very different approach to the indicators reviewed so far.

Financial Services Authority

In 2008 the FSA reviewed the latest evaluations of financial education interventions³² to help them inform their work on the UK Financial Capability Strategy at the time. As a result they found that there was a gap in evidence to prove the effectiveness of different types of interventions and for different groups, so provided guidance on conducting a robust evaluation of financial capability interventions. As part of this, they set out the features of a good outcomes evaluation:

1. **Clear objectives for the project and evaluation** including identification of a target group receiving the intervention.

³¹ <http://www.toynbeehall.org.uk/map-tool-faqs> accessed on 6/5/15.

³² Personal Finance Research Centre, University of Bristol (2008) *Evidence of impact: An overview of financial education evaluations*. Financial Services Authority.

2. **Good quality data and administrative records** focussing on key measures and background information.
3. **Quantitative data with a representative sample** from the target population.
4. **Careful consideration of the sample size** taking into account the analysis time required to understand the outcomes.
5. **Well designed data collection tools** that are appropriate to the target population, the intervention being evaluated and the outcomes being measured.
6. **Benchmark measures** for financial capability related knowledge, skills, attitudes and behaviours which can be followed up on after the intervention to help track immediate and sustained changes.
7. **Considerations for time period required to identify change** balanced with the likelihood of collecting reliable data over extended periods of time.
8. **Including a 'control' group** to show the changes that would normally take place in the absence of the intervention being evaluated.

Consumer Financial Protection Bureau

The Consumer Financial Protection Bureau (CFPB) is the United States' equivalent of the UK's Financial Conduct Authority; they are an independent agency of the US government responsible for consumer protection in the financial sector.³³ In 2014 they brought together a forum of experienced academicians and evaluators to put together a case for rigorous financial capability evaluation as well as provide recommendations and guidance on the different methods that can be used to design, implement and analyse such an evaluation. The resultant paper outlines their recommendations and solutions to the kinds of issues that can come about when organisations conduct research, e.g., barriers in policy and funding.

Similarly to MAS, the overall message from the CFPB is that the gold standard for evaluating financial capability interventions is to use randomised-controlled trials, where the effects on the intervention group are compared with a similar group not receiving the intervention. They address detailed issues in relation to the design, implementation, data collection and analysis, however the most relevant points to mention here are their six criteria for deciding whether to go ahead with a randomised controlled trial evaluation:

1. **Scalability and replicability** - randomised controlled trials should be used where there is likelihood of its findings being widely relevant and replicable for others.
2. **Organisational capacity and size** - as well as having the resources to conduct a randomised controlled trial, need a sufficiently large population

³³ http://en.wikipedia.org/wiki/Consumer_Financial_Protection_Bureau accessed on 6/5/15

from which to sample for the trial; the smaller the expected outcome, the larger the sample required.

3. **Programme stability** – ensure delivery of the programme is stable and not subject to too much change that could effect the way that the intervention is delivered, e.g., in relation to staffing and funding.
4. **Adequate funding for programme operations and evaluation and buy-in from funders** – programmes may need additional funding/capacity to carry out the research in a manner that aligns with the research design.
5. **Buy-in and research planning participation from front line staff** – programme staff may be needed to recruit participants, assign them to control groups and manage data.
6. **Close working relationship between evaluators and providers** – early engagement with providers and ongoing communication about implementation and progress is crucial.

Evaluating the impact on wellbeing and health

Various in-depth studies have attempted to assess the impact of financial capability on financial well being and health more generally. Here we examine three key pieces of work done in this area by MAS and the FSA, all of which comes to the conclusion that increasing financial capability improves financial well being and health as a whole.

Financial Services Authority

The FSA completed two pieces of systematic research assessing the connection between financial capability and well being. In 2011 they commissioned the Institute of Social and Economic Research (ISER)³⁴ to look at the impact of changes in financial capability on psychological well being, comparing that to the impact of levels of household income.

The findings were that improvements in financial capability have far more of a positive impact on people's psychological well being than increases in household

“Moving an individual with relatively low levels of financial capability to an average level of capability improves their psychological wellbeing by about 6% (compared to an 8% deterioration in wellbeing associated with being divorced, and a 10% deterioration from being unemployed)”³⁵

³⁴ Taylor, Mark., Stephen Jenkins and Amanda Sacker (2011) *Financial capability, income and psychological well being*. Institute for Social & Economic Research Council.

³⁵ Consumer Financial Education Body (CFEB), Ministry of Justice National Offender Management Service, Citizens Advice Bureau (2010) *Improving the financial capability of offenders - A guide for Citizens Advice and others*. Consumer Financial Education Body.

income and material well being. It was also found that financial capability increases people's resilience to challenging life events such as divorce and unemployment.

ISER's approach involved collating nationally representative data from the British Household Panel Survey (BHPS), using statistical techniques to identify indicators of people's financial situation that are equivalent measures of financial capability and assessing people's psychological health using the 12-item General Health Questionnaire (GHQ-12) which is also included in the BHPS. They then used statistical techniques to illustrate the impact of financial capability on psychological well being, eliminating the bias of unobservable factors.

The indicators they developed to measure people's financial capability fell under the five areas of:

- Managing money.
- Control of finances.
- Making appropriate financial decisions.
- Understanding how to manage credit and debt.
- Identifying appropriate products and services.

The indicators they developed to measure people's psychological well being did so indirectly using the below questions from GHQ-12. Participants were asked to respond on a four point scale running from 'not at all / much less than usual' to 'much more than usual / better than usual', coded from 0 to 3, with asterisked questions being coded in reverse. These scores were all added together to provide a total score for each person, where a high score corresponds to low psychological health and high probability of a mental disorder.

General Health Questionnaire

Have you recently:

1. Been able to concentrate on whatever you are doing?*
2. Lost much sleep over worry?
3. Felt that you are playing a useful part in things?*
4. Felt capable of making decisions about things?*
5. Felt constantly under strain?
6. Felt you couldn't overcome your difficulties?
7. Been able to enjoy your normal day to day activities?*
8. Been able to face up to your problems?*
9. Been feeling unhappy and depressed?
10. Been losing confidence in yourself?
11. Been thinking of yourself as a worthless person?
12. Been feeling reasonably happy all things considered?*

Previous to this, in 2009 the FSA commissioned the University of Essex to carry out research³⁶ using the same methods and data sources, where there was also found to be a strong association between financial capability and psychological well being.

The Money Advice Service

Early in 2015 the Money Advice Service commissioned TNS BMRB to look at how certain interventions impact on people's financial behaviours, financial capability and financial well being. They also look at the different elements of the UK Financial Capability Strategy framework and their relationship with financial well being. It is important to distinguish between financial well being and general well being here; the study gives a very specific set of indicators for financial well being based on MAS's staircase model (figure 3).



▲ Figure 3: MAS financial well being staircase³⁷

The study focussed on the three middle levels of the staircase due to there being an abundance of evidence already available in the lowest level and the extra work thought to be required to examine the top level. The methodology involved 30 in-depth qualitative interviews and 6 focus groups, selecting people based on demographics as well as their experiences of financial shocks and levels of financial well being. Financial well being was measured using the following two main indicators:

- 1. How people manage their money** - keeping track of expenditure, self-assessment of being good or bad with money, planning for the future, regular saving, spending within means.
- 2. Ability to deal with life events and financial shocks** - savings and insurance available, e.g., financial buffers and income protection insurance, adaptability to sufficiently substantial changes in spending habits or

³⁶ University of Essex (2009) *Financial capability and well being: Evidence from the BHPS (British Household Panel Survey)* Financial Services Authority, p.6.

³⁷ The Money Advice Service (2015) *The Consultation Response and Next Steps. Financial Capability Strategy for the UK*. The Money Advice Service. p. 23.

shopping around for the best deals and willingness to change this, influence of emotion and sense of responsibility.

From this research MAS found that there were three main factors that contribute to, and are indicators of, falls in or lower financial well being:

- 1. Income** - those with a low income are most likely to be on the lower steps of the staircase as they find it harder to save and adjust spending in order to become more resilient to financial shocks.
- 2. Life events** - a fall in financial well being is most likely to happen if you lose a job or have your hours reduced, suffer from long-term illness or have a short-term illness and your employer doesn't cover your wages, separating or getting divorced from your partner, getting pregnant and making a large purchase such as a house, extension or car.
- 3. Behaviours** - a fall in financial well being is also associated with behaviours such as increased impulse purchasing, not paying off credit cards, reducing or stopping saving, stops to monitoring money planning or budgeting, paying for day-to-day items on credit cards and not paying it off, using savings for day-to-day spending and using payday loans.

In 2010 the Money Advice Service's previous incarnation as the CFEB carried out research to identify best practice for improving the financial capability of offenders³⁸. Here it was found that higher levels of financial incapability can be linked to higher levels of mental stress, lower rates of life satisfaction and an increased likelihood of suffering from anxiety and depression. This finding should be taken in the context that prisoners are 14 to 35 times more likely to suffer from at least two mental disorders compared to the general population.

³⁸ Consumer Financial Education Body (CFEB), Ministry of Justice National Offender Management Service, Citizens Advice Bureau (2010) *Improving the financial capability of offenders - A guide for Citizens Advice and others*. Consumer Financial Education Body.

Evidence of how to improve financial capability

This section focuses on a range of examples from the review which provided evidence proving certain approaches improve people's financial capability, taking into account both practical and behavioural science-based approaches.

Practical approaches

From the documents reviewed, there was limited robust evidence from the UK to show which kinds of practical financial capability interventions worked well and for which groups of people. The following provides a summary of what was found.

Engaging tenants (Citizens Advice)³⁹ It can be a challenge to get tenants to attend financial capability training. As part of the Quids In project, different methods were tried and tested by Citizens Advice in collaboration with the Personal Finance Research Centre. It was found that the following helped raise levels of engagement:

- Personal contact such as cold-calling by telephone or dropping by a tenant's home was the most effective method of getting them to attend training.
- One-to-one sessions were more attractive to tenants and saw more attendance than group sessions.
- Printed materials, mail-outs, local media coverage and drop-in sessions were not effective at getting tenants to engage.

Working with offenders (Consumer Financial Education Body)⁴⁰ In delivering financial capability training to offenders, CFEB found that the below methods worked well:

- Having one or two day workshops rather than rolling programmes which go over the course of a number of weeks.
- Making attendance compulsory, or the default 'opt-in' rather than 'opt-out'.
- Follow-up attendees to see if they have acted on the advice and training they received. Making a commitment that one will take action and knowing that will be followed up creates a stronger incentive to act.

³⁹ Collard, Sharon., with Andrea Finney, David Hayes and Sara Davies (2012) *Quids in: The impact of financial skills training for social housing tenants*. Personal Finance Research Centre, University of Bristol.

⁴⁰ Consumer Financial Education Body (CFEB), Ministry of Justice, National Offender Management Service, Citizens Advice Bureau (2010) *Improving the financial capability of offenders - A guide for Citizens Advice and others*. Consumer Financial Education Body.

Overall in the UK, there appears to be a dearth of evidence assessing what is and isn't good practice in relation to financial capability interventions and working with different groups of people. The Money Advice Service are attempting to address this gap by setting up the evidence hub as part of the UK Financial Capability Strategy, where both UK-based and international studies are being showcased to give an overview of what exists as well as provide a driver for other organisations to provide more robust evidence on the impact of their interventions.

At the time of accessing the hub⁴¹, of the 36 research studies uploaded, only one has so far been found to be consistently effective, the 'American State Mandated Youth Financial Education', a mandatory face-to-face training programme delivered as part of the state curriculum. 14 of the studies showed interventions to be effective, one of which included the Citizens Advice 'Quids In' project referenced above. The other 13 are summarised as follows:

- **My Finance Coach's financial education programme (2012).** Face-to-face financial education provided by students in lower stream high schools in Germany, delivered by volunteer 'finance coaches'.
- **Money Management International's workplace financial education (2014).** US-based workplace intervention involved a year-long programme of educational initiatives designed to address employees' financial needs.
- **Financial education programme for US immigrants (2014).** Web-based financial educational materials designed to improve financial knowledge, confidence and behaviours in immigrants in the US.
- **Financial education in Italian secondary schools (2012).** Delivered in schools by trained teachers to final year secondary schools students.
- **Free and paid-for UK debt advice (2012).** Delivered by the Money Advice Service, looks at the financial capability outcomes of free and paid for debt advice provided face-to-face, by telephone, email, website, post, printed material and instant messaging.
- **Italian Ministry's university financial education programme (2014).** Video-based training programme for Italian university students to explore the effect of financial education on financial literacy and attitudes towards financial risk.
- **The Council for Financial Security's 'Assessing Financial Capability Outcomes Framework' youth pilot (2014).** Pilot programme in US primary schools to evaluate whether combining financial education with experiential learning through in-school banks improved financial knowledge and behaviour.
- **Council for Economic Education's 'Financing Your Future' (2010).** Classroom-based financial education programme designed to increase financial knowledge, delivered by teachers in the US with the aid of DVDs.

⁴¹ <http://www.fincap.org.uk/evidencehub> accessed on 30/04/15.

- **World Bank’s video-based financial education programme in India (2011).** Video-based financial education programme in rural India designed to improve financial knowledge.
- **MyBnk’s ‘Money Twist’ (2011).** UK-based face-to-face course that aims to provide young people with real life money skills through a series of hands-on workshops.
- **FSA and UK Government’s ‘Money Guidance Pathfinder’ (2010).** Pathfinder programme (precursor to the Money Advice Service) providing money guidance and information through multiple channels
- **Youth financial education programme in Brazil (2012).** Financial education programme delivered in schools in Brazil, with an evaluation spanning 18 months and 20,000 pupils.
- **University of Western Australia’s ‘Managing your Personal Finances’ (2014).** Semester-long face-to-face course for university students designed to improve their financial knowledge, skills and behaviour

It is evident from the list above that a majority of the evidence available comes from international programmes. The few UK-based studies come from Citizens Advice, the FSA (now the FCA), the Money Advice Service and MyBnk. Given the wide range of services Citizens Advice has to offer, and our significantly large client base, we have the unique opportunity to fill this gap in evidence for the effectivity of UK-based financial capability interventions.

Behavioural sciences evidence

There is rich evidence in the field of behavioural science to show that people’s psychology plays just as an important part as their knowledge and skills, if not more, in their financial capability. Here we look at the most prominent research to date that has explored this area of work.

“People’s attitudes, motivations and opportunities are, if anything, more important than skills and knowledge, in shaping the way people manage their money”⁴²

Behavioural insights team

By far the most influential work in relation to behavioural science in financial capability, is that of the Behavioural Insights Team, an organisation who in partnership with the Cabinet Office are dedicated to the application of behavioural sciences for the good of society.

The most referred to model in the field of financial capability developed by the Behavioural Insights Team is known as ‘MINDSPACE’, an acronym summing up the

⁴² Ipsos MORI, The Money Advice Service (2013) *The Financial Capability of the UK*. The Money Advice Service, p.2.

different psychological traits that influence human behaviour⁴³. These are: **messenger** (we are heavily influenced by who communicates information to us), **incentive** (mental shortcuts tend towards strongly avoiding losses), **norms** (we are strongly influenced by what others do), **defaults** (we 'go with the flow' of pre-set options), **salience** (our attention is drawn to what is novel and seems relevant to us), **priming** (our acts are often influenced by subconscious cues), **affect** (our emotional associations can powerfully shape our actions), **commitment** (we seek to be consistent with our public promises and reciprocate acts) and **ego** (we act in ways that make us feel better about ourselves).

Following some robust testing using randomised controlled trials⁴⁴, they created the EAST model⁴⁵, setting out four simple ways to change people's behaviours, given they have the aforementioned MINDSPACE characteristics:

Make it:

Easy - harness the power of defaults, reduce the 'hassle factor', simplify messages

Attractive - attract attention, design rewards and sanctions for maximum effect.

Social - show that most people perform the desired behaviour, use the power of networks, encourage people to make a commitment to others

Timely - prompt people when they are likely to be most receptive, consider the immediate costs and benefits, help people plan their response to events.

"simply including the explicit steps that people need to take in order to perform a behaviour makes that behaviour more likely: these small 'channel factors' have a significant effect on whether or not people act"⁴⁶

Financial Services Authority

Based on a review of behavioural economics literature in 2008⁴⁷, the FSA concluded that financial decision making has a much stronger relationship with psychology than knowledge, attributing this to the lack of evidence to prove that financial decision making can be improved in the long-term. On this basis, they state that changes to the way that financial institutes are designed and regulated would be more effective at changing people's financial behaviours than trying to improve

⁴³ Cabinet Office, Institute for Government (2010) *MINDSPACE: Influencing behaviour through public policy*. Cabinet Office, Institute for Government.

⁴⁴ Behavioural Insights Team (2012) *Applying behavioural insights to reduce fraud, error and debt*. Cabinet Office.

⁴⁵ The Behavioural Insights Team (2014) *EAST: Four simple ways to apply behavioural insights*. The Behavioural Insights Team.

⁴⁶ Behavioural Insights Team (2012) *Applying behavioural insights to reduce fraud, error and debt*. Cabinet Office, p. 26.

⁴⁷ London School of Economics (2008) *Financial Capability: A Behavioural Economics Perspective*. Financial Services Authority.

their knowledge. The FSA's review picks out five of the most relevant psychological traits in relation to financial capability from the literature:

1. **Procrastination** - the tendency to go for the quickest, easiest option that gives the best short-term consequences, even if the long term consequences would have a better return.
2. **Regret and loss aversion** - the concern about what one has in comparison to what one used to have and what one could have had, e.g., whether a person sells shares is influenced by how much they paid for them.
3. **Mental accounting** - reliance on memory to keep track of spending and saving and to create budgets.
4. **Status quo bias** - people sticking to prior choices they have made to avoid change for its own sake, even if change would be more beneficial.
5. **Information overload** - when confronted with an overwhelming amount of information and choice, the tendency for one to focus on inappropriate or unimportant information.

The Money Advice Service

One of the main findings of the research MAS commissioned TNS BMRB to carry out this year was that mindset has over and above the biggest influence over people's financial capability. They believe that the extent to which this is the case is however dependent on the level of people's skills and access to support and guidance.

MAS's previous incarnation as the Consumer Financial Education Body carried out a piece of research which takes evidence from behavioural sciences to see how this can be used to change people's financial behaviours.⁴⁸ From this they concluded that to effectively change financial behaviours, interventions should be focussed both on the individual and the system. Thus the aim should be to change people's behaviours through information, education and incentives, as well as through manipulating the environment and social constructs within which people operate and make decisions. The research cites the Behavioural Insights Team's work in relation to MINDSPACE as setting out relevant ways to influence individuals towards more financially capable behaviours.

In their most recent draft of the financial capability strategy⁴⁹ MAS touch on the role of behavioural economics in financial capability and reiterate that attitudes are a key driver to behaviour and therefore to financial capability and financial well being more broadly.

"...mental shortcuts that enable us to cope with a complex world can sometimes get us into trouble, both as individuals and collectively [...] two processes operate in the brain. One is reflective (controlled, effortful, deductive, slow and self-aware), and the other is automatic (uncontrolled, effortless, emotional, fast and unconscious)"⁵⁰

Transact

Transact is the UK national forum for financial inclusion. In 2013, they produced a briefing on behavioural economics⁵¹ which discusses the latest key insights from behavioural economics, or 'nudge theory', including the work of the Behavioural Insights Team. Here they look at the relevance of nudge theory to financial capability and in sum, recommend that financial institutes take on the responsibility of addressing financial capability, given the involuntary nature of the psychological characteristics that are purported by nudge theory to govern people's financial behaviours. These are their key recommendations for addressing the psychological biases that impact on people's financial decision making, and largely focus on environmental change:

- 1. Provide more information** - compel financial services to provide information in a specific way or prohibit specific marketing materials and practices that accommodate psychological biases.
- 2. Change the choice environment** - adjust how choices are presented to consumers.
- 3. Control product distribution** - require products to be promoted or sold only through particular channels or only to certain types of clients.
- 4. Control products** - ban specific product features or whole products that appear designed to exploit or require products to contain specific features

"social, cognitive and emotional biases can override financial literacy and capability"⁵²

⁵¹ Hayes, A (2013) *Behavioural economics, 'Nudge' and Financial Inclusion*. Transact.

⁵² Hayes, A (2013) *Behavioural economics, 'Nudge' and Financial Inclusion*. Transact, p.8-11.

Conclusion

Financial capability is a relatively new concept, policy and approach in the UK and so there has not been much time to gather significant evidence that proves that certain types of approaches really have an impact on people's behaviour.

Overall there is much scepticism about how easy or even possible it is to change people's financial behaviours, particularly in relation to educational approaches. Moreover, there appears to be a need for more robust and longitudinal study to provide evidence of the impact of different types of interventions. Across the sector, there is the emerging view that randomized control trials or quasi-experimental methods are the gold standard for financial capability evaluations.

In terms of health and wellbeing, there is strong evidence to show that improved financial capability has a significant impact, far more than even improvements in income or material well being. Therefore this would be a valuable area for Citizens Advice to evaluate along with outcomes specific to financial capability.

The current gap in robust evidence in the UK for proving the effectivity of different types of financial capability related interventions also presents Citizens Advice with a unique opportunity. We are in a position to be trailblazers in the field of financial capability by providing robust, longitudinal and population wide evidence of the impact of certain types of interventions on different people's financial capability.

There is robust evidence and guidance available for the way that financial capability and health and well being can be defined and measured. However further work needs to be done to ascertain whether these would be appropriate and robust enough to suit Citizens Advice's client profile and the operational context within which our services are delivered.

"Despite the appetite of organisations to assess their services there is still too great a reliance on reporting activities (e.g., the number of training sessions delivered) and measuring customer satisfaction, rather than outcomes. This is due both to a lack of resources and a lack of clear guidance." - MAS, 2014 ⁵³

⁵³ The Money Advice Service (2014) *Financial Capability Strategy for the UK: The Draft Strategy*. The Money Advice Service, p.30.

Appendix

Below is the analytical framework that was used to structure the analysis of each piece of evidence as part of the rapid evidence assessment.

Title:		Year:		Key words:
Author(s):		No. pages:		
Publisher:		Material type:		Evidence level: Consistently effective / Effective / Potentially effective / Theory-based / Unspecified / Ineffective
URL:		Date reviewed:		
Abstract / main concepts:				
Financial capability in relation to advice:				
Examples of measures and indicators:				
Evidence of causal links between interventions and behaviour change:				
Good practice examples:				
Key stats:				
Linked areas of interest <i>(deprivation, mental health, children and young people, families, international models, behavioural economics)</i>				
Analysis				
Follow-up texts				

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