The Financial Capability of the UK

About this report

While drawing on a number of different Money Advice Service research projects, this report focuses on two in particular.

One is a major ethnographic survey, called Money Lives, from which observational insights are drawn. This is one of the largest longitudinal studies into UK financial behaviour in recent years.

The second is a new, large scale quantitative survey that provides a benchmark for financial capability in the UK in 2013. For this financial capability tracking survey we asked over 5,000 adults about their money, how they feel about it and what they do with it. In order to track progress in the future, we intend to repeat the survey quarterly, and to survey a total of 10,000 people over the course of each year. Part of the survey compares progress with the 2006 baseline of financial capability report published by the Financial Services Authority (FSA). While some of the questions have been updated to reflect changes (for example online banking is now prevalent), this historical data provides valuable areas of comparison. More technical detail on the background and methodology used for the financial capability tracker survey, together with links to the FSA material can be found in appendix 3.

The report seeks to present the key findings from the financial capability tracker, with case studies from the Money Lives project drawn out to illustrate the statistical highlights.

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Foreword

Caroline Rookes

**Money Advice Service
Chief Executive**

In theory effective money management is easy – spend less than you earn and think about the future. The difficulty comes when applying this to the real world. We are all vulnerable to events around us, from a global financial crisis to a personal health issue, events that can be completely unpredictable, opening or closing a huge range of doors.

To be capable of dealing with those events effectively we need the right skills and knowledge, appropriate attitudes and motivations, and opportunities to act.

This report draws on the Money Advice Service's Money Lives ethnographic study and its new financial capability tracker, bringing together observational insight and quantitative evidence to explore exactly what we understand financial capability to mean, and to begin to provide a framework for its improvement.

It is intended to provide a foundation for discussion, provide insight into the challenges faced and behaviours exhibited by people across the UK, and offer a resource to anyone involved in financial capability. It is an important piece of the jigsaw that, together with data collected through our recent call for evidence exercise, will contribute to the development of a UK strategy for enhancing financial capability.

In these tough economic times this report identifies those that can, and do, manage their money, and also those that don't. The 18 million UK adults who run out of money before payday are brought into focus. They are not all on lower than average incomes: around a third of those who earn over £30,000 say they find it tough to live within their means.

I would like to personally thank everyone who has participated in our research, especially those who have so generously shared their 'money lives' with us. Your involvement has been invaluable.

At the Money Advice Service we will continue to analyse the data, combining with other sources where appropriate. We have made the data set available and are keen to hear what others find of interest.

Summary

This report provides us with a detailed picture of how people across the UK are managing their money today. We have surveyed over 5,000 people and followed 72 families closely over the course of a year. It is the most in depth piece of research into financial capability in the UK since the Financial Services Authority's similar study in 2006, in very different economic circumstances.

Although the picture portrayed by the information is complex, there are clear trends. Significantly, but not surprisingly, **people are struggling with their finances** more than they were in 2006. A third of people said they were struggling in 2006, but this figure has risen to over half. There is a general feeling that **people worry about their ability to make their money last until payday**. And because of this, **people are focussing more on the here and now than on planning for the future**, including for unforeseen emergencies. There is a knock-on effect on people paying into pensions and life insurance, with less than a third doing so.

The research shows however that many **people are deploying a range of coping mechanisms** to adapt to the situations in which they find themselves. The number of people checking their bank statements has increased since 2006 and almost 84% say they keep track of their money. The vast majority of people who make a budget, stick to it. Significantly, people across the UK are continuing to save; over half the population save something each month, which is the same percentage as in 2006.

So the picture is of a nation which is **working hard to manage**.

The FSA's 2006 study highlighted the importance of skills and knowledge as influencers of financial behaviour. It is clear that poor financial skills are still prevalent, with, for example, 16% of people unable to identify the available balance on a bank statement.

However, our research demonstrates that people's **attitudes, motivations and opportunities are, if anything, more important than skills and knowledge**, in shaping the way people manage their money. For example, one in five people would rather take £200 now than £400 in two months' time.

Only by recognising how different people's lives are shaped by these influences can we fully understand how we can best help people manage their money. Four distinct groups are emerging from our research, each with different money habits. Among these, nine million people are in need of urgent help with managing their money. Another 14 million, spanning young and old, are focussed on the now rather than the future, while 10 million of us are 'on the edge' and showing signs of beginning to struggle. Around 16 million people have 'healthy finances'.

Understanding the money habits of the UK is a journey, and we remain close to the start of it. During 2013 this research will contribute towards the development of a new strategy for financial capability in the UK, one whose principles, objectives and vision for the long-term financial well-being of the UK can be shared by the many organisations with an interest in this area.

The findings in this report are the first from what will be an on-going survey of the population, to see how habits are changing, how external factors are affecting people's financial decisions, and the impact the new UK strategy for financial capability and the Money Advice Service itself are making.

There is much in this report which gives cause for optimism, suggesting that many people across the UK are weathering the current tough economic climate. But there is also much which suggests that there is hard work to be done to improve the financial capability of the UK.

Struggling to keep up

The proportion of people struggling to keep up with their bills and credit commitments has risen from 35% in 2006 to 52% in 2013

2013 **52%**

2006 **35%**
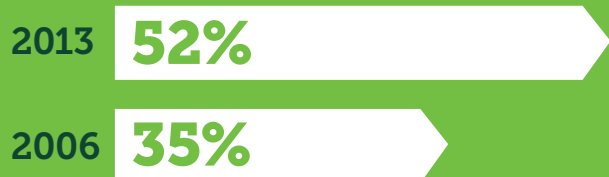
▲**17**
percentage point increase in people struggling

Working hard to manage

84%
of people keep track of their money

85% are saving, with 53% saving each month

46% of people make a personal budget

36% of people have experienced a shock to their finances in the last three years

21% have experienced a large drop in income in the last three years

42% would have to think about how to cover an unexpected £300 bill

Skills, knowledge and attitudes

12% believe the current Bank of England base rate to be over 10%

16% unable to identify the balance on a bank statement

18% of people, if asked out for the evening, would still go, even if they couldn't afford it

25% prefer to live for today than plan for tomorrow

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Aspects of financial capability

76%

agree they are never late paying bills

17%

buy things when they can't really afford them

Aspects of financial capability

There is nothing new in the idea of influencing people – but there is certainly something new in our understanding of how best to do it. Behavioural sciences research by Webb and Sheeran, 2006, shows that approaches based only on education and information do not actually work very well in practice. This is because the decisions we make are influenced by how, when, where and by whom the options are presented to us. And because we respond to these 'framing' and 'contextual' factors quickly, automatically and largely unconsciously.

Historically, work to improve financial capability focused predominantly on building knowledge and skills. However the evidence for increasing financial capability purely through these means is not compelling, as explained in research for the Consumer Financial Education Body, 2010.

Recent Money Advice Service research combined with a weight of evidence from behavioural science leads us to believe that there are five critical elements that impact on financial capability: skills, knowledge, attitudes, motivation and opportunity.

Experiences and Personality

↓

Skills   Knowledge

Attitudes   Motivation

Opportunity

↓

Behaviours
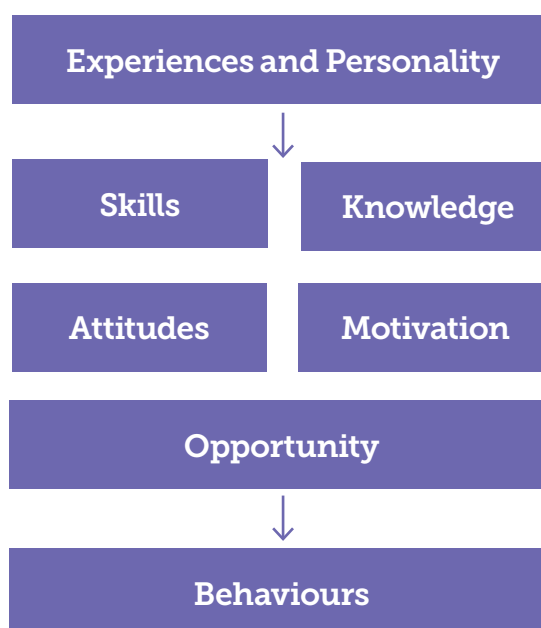
These elements, explained more fully below, help us to understand why some existing interventions may not be as effective as hoped. For example, many people may be motivated to receive financial advice, but lack the physical or social opportunity; they may not know which agencies to go to for the appropriate advice or they may be put off doing so by their peers.

Similarly, many people may have sound skills and extensive knowledge but their attitudes, or lack of motivation, may mean they are more inclined to spend for now rather than save for later.

Addressing these elements together, with well designed interventions, represents the key to unlocking a more financially capable UK.

Skills: A wide range of skills can be required for financial management, including mathematical planning, self-control, decision-making and problem solving. Our definition includes emotional, cognitive and/or behavioural skills and capacity to engage in the necessary thought processes for financial management.

For some there is a gap in basic financial skills that impacts on their ability to manage and plan with their money. For example, 16% of people in our research could not review a sample bank statement and correctly identify the balance. Other examples include a lack of understanding of inflation and interest rates and how to compare savings products for the best returns.

Skills are also required for planning. For example, a lack of planning skills can mean people become unstuck by regular expenses (such as car insurance or the MOT and annual service) that are predictable but which come as a surprise every year.

Poor financial management is often an issue associated with younger people who have not yet had the opportunity to acquire the skills through their own experience. As a result, their money management can appear haphazard as they try to piece together the key actions that they need to effectively manage their financial life.

> **"I think I'm slightly better in managing my money, but I wish I'd been a bit more sensible and thought, 'well if I want a nice car, save for it'. I would have liked to have lived the same life, but funded in a different way..."**

Knowledge: Knowledge is required to be able to access effectively the financial markets and sources of advice and support. Life events – such as moving away from home for the first time, a first baby, or retiring – throw up new situations for people of all ages where their knowledge is incomplete.

Lack of knowledge can mean that, for example, people miss out on potential sources of income such as unclaimed benefits or don't know of the existence of sources of advice such as the Money Advice Service, Citizens Advice or Local Authority support services. Low knowledge levels can leave people financially excluded, cut off from sources of support, and unable to manage their own money effectively.

> **"When I was growing up I had a certain amount of money coming through my hands... but because the knowledge wasn't there, I just had it and wasted it..."**

Attitude: Attitudes are an expression of underlying beliefs and values that may influence behavioural intention and may be influenced by social norms (that is, what others commonly do). These underlying beliefs and values, in relation to managing money, are likely to have been formed initially by parents' beliefs, values and habits, developed further through experiences, and been impacted upon by the attitudes of others.

An example of the importance of attitudes comes from research among younger 'struggling' families. While many are over-indebted and appreciate the need to minimise their spending, the line between 'luxury' and 'essential' is not black and white. We have found that subscription television, holidays and cigarettes are seen by many as priorities, while social norms mean that it is often important to drive a new, expensive car or wear branded clothes.

We often see that children can be a key driver of attitudes. Parents want to avoid disadvantaging their children by making sure they are not 'different' (for example, by providing the best clothes, school trips, after school clubs and toys). Products such as contents insurance were on the other hand, described as optional or 'nice to have'.

> "I've got seven credit cards — all maxed out. I use them for going out for drinks and stupid things, you just do it don't you? Peer pressure — I suppose if your mates are going out all the time and you're not, it makes you want to go out and stick a night out on one of them. You don't have to pay anything…"

Motivation: Motivation refers to ways of thinking that energise and direct behaviour, and include reflective (conscious) and automatic (unconscious) mechanisms. Individuals are motivated to take action through a conscious decision. However, there are many unconscious mechanisms that will make a significant difference to whether the action actually happens. People are influenced by factors such as incentives (like saving up for a holiday), making a commitment (saying you will do something), and emotional priming (previous experience making you more aware of and sensitive to something). These factors can make a significant difference to the actions people take.

Motivation is a key issue for those with older families. Most people who are currently 10 to 15 years from normal retirement age have lived through periods of hardship, and see little motivation to save hard if it is only going to be devalued as they get older. Furthermore, for those already living a life based heavily around benefits, a basic state pension is actually not a major shift from current income levels. As a result, motivation to save more for the future is difficult.

> "When I met her, I thought 'this is the person I want to marry. This is the person I want to spend the rest of my life with. I'd better start being a bit more sensible…'"

Opportunity: Our definition of opportunity refers to external factors that either prompt people's behaviour around finances or make it possible. This can refer to social opportunity (such as the networks of family, friends or colleagues that people have), or physical opportunity (such as the location people live in). Social opportunity includes the availability of appropriate financial advice to the network of people of which the individual is a part. Physical opportunity includes issues such as the availability of the internet, smart phones or advice services.

Younger families who are struggling with debt problems are typically disadvantaged by lack of opportunity. Many come from families where there has been less opportunity and support for education and to learn about good financial management. As a result, their perception of the opportunities available to them within the job market is often limited to lower paid and manual work, which in turn restricts their chances of recovering from any difficult financial situations that may arise.

> "When we first got married, we had the mortgage on the flat. At the time, what I was earning when I was on the buses, it was a big mortgage and I was doing up to 16 hour days (13 days on, and one off) which lead to a mental breakdown. I was off work for 6 months – Prozac and everything..."

02

Key findings

49%

are concerned about their finances

84%

of people keep track of their income and expenditure

"I would just like to be able to pay my bills and buy food and buy clothes. I don't want anything else…"

What's changed since 2006?

Repeating some of the questions initially asked in the 2006 FSA baseline survey allows us to compare aspects of the population's money management, attitudes and habits.

Since 2006, the time of the FSA baseline survey, the Annual Survey of Hours and Earnings from the Office for National Statistics shows that real income per hour has dropped 6% and most of us are aware these are tough times to make ends meet. Over half the population state they are struggling to keep up with bills and financial commitments compared to just over a third in 2006.

We have become more diligent. We are checking statements more carefully: 54% of us regularly check all entries in bank statements and only 3% didn't look at statements at all or in any detail.

In 2006 36% checked the detail of the entries to ensure that they looked right and 6% appeared to ignore their bank statements altogether.

There has been a 13 percentage point drop in the percentage of people agreeing that they always make sure they have money saved for a rainy day – perhaps influenced by current record low interest rates. However, what may be surprising is that, 85% are still saving, with over half (53%) saving each month, and nearly nine in ten (88%) recognising that saving for a rainy day is important.

9 million

more people in the UK are struggling to keep up with bills and credit commitments. Figures have risen from 35% in 2006 to 52% in 2013.

2013 **52%**

2006 **35%**

▲**17**
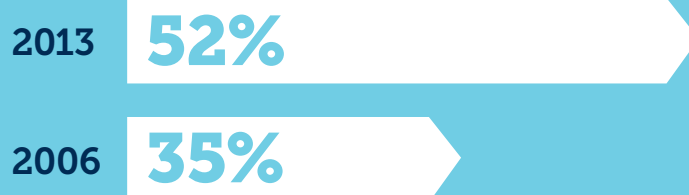
percentage point increase in seven years

5 million

fewer people in the UK agree that they make sure they have money saved for a rainy day. Figures have dropped from 75% in 2006 to 62% in 2013.

2013 **62%**

2006 **75%**

▼**13**

percentage point decrease in seven years

More people regularly checked all entries in bank statements

2013 **54%** Regularly checked all statement entries

2006 **36%** Checked the detail of statements to ensure they looked right
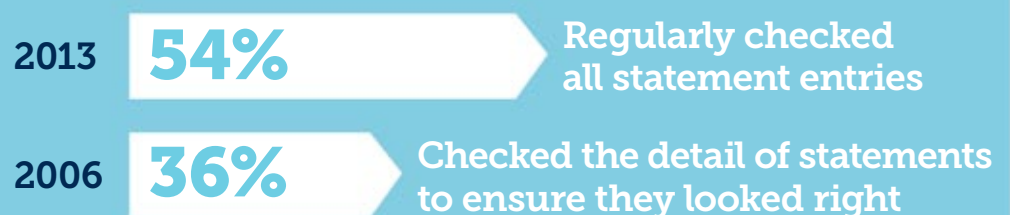
More people checked the detail of the entries

2013 **3%** Didn't look at statements in any detail

2006 **6%** Appeared to ignore their bank statements all together

The here and now: the struggle to make ends meet

While over half of us are struggling to keep up with bills, more than three quarters of us encouragingly, say we are never late paying them. This is not, however, always easy with over a third of respondents saying that they have to cut back in the run up to payday.

Parents in particular struggle, with 44% having to cut back and this figure is higher if they receive benefits.

In interviews and ethnographic observation our research reveals that many families are adopting an attitude of 'focussing on the basics' when it comes to responding to financial difficulties, but this causes stress and tension for parents.

For the 4.7 million people in the UK that are 'sandwich carers' – coping with the responsibility of looking after young and older family members simultaneously – their financial situation can be further compounded. Almost one in three UK sandwich carers are currently struggling to cover basic living costs, with over one in five in debt and finding it difficult to cope. A quarter of all sandwich carers have been forced to reduce working hours and the same proportion have been forced to give up work altogether, further tightening the squeeze on the family incomes.

"Money causes a lot of tension in the home. It hurts when your child comes to you and goes 'oh I want that'…"

67%

cut back on spending to try to make ends meet when they suffered a large drop in income

Managing money: confidence, behaviour and attitudes

Despite numerous pressures on people's budgets, the vast majority of us feel confident when it comes to managing our own money.

How confident are you when it comes to managing your money?

21

%

79

- You are confident
- You lack confidence
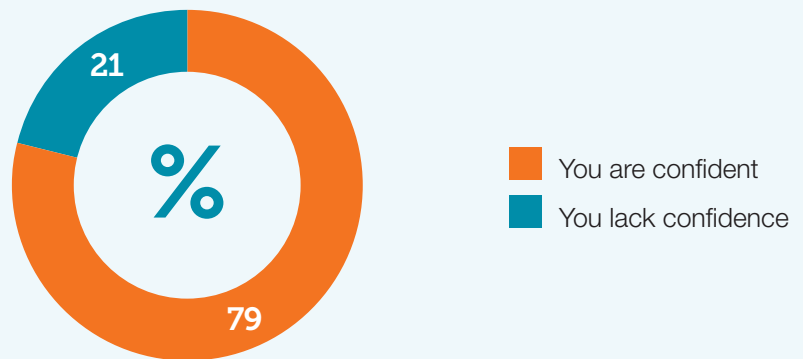
Base: 5,079

The majority of us have a method of some sort for keeping on top of our finances. Two thirds of us check our bank balance when we get money out of a cash machine and four out of five check our balance before going shopp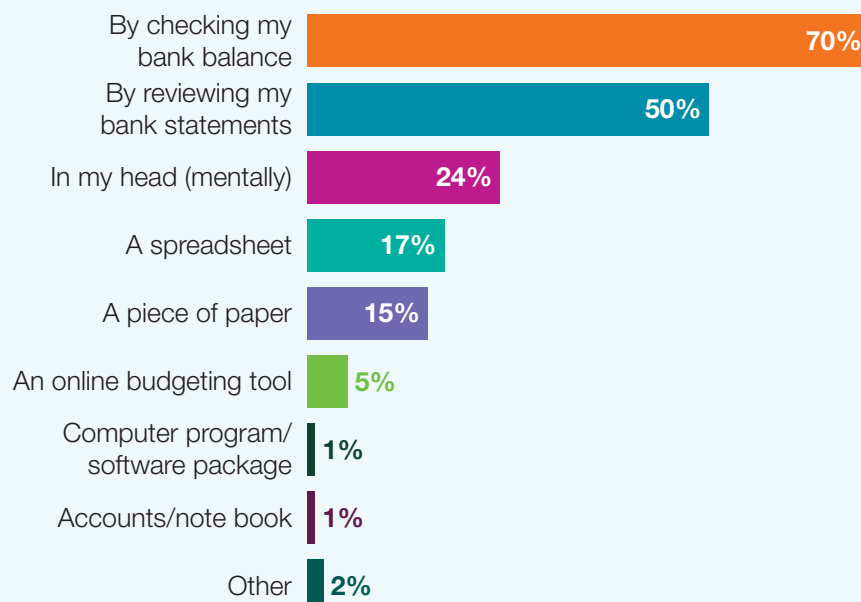ing. Being paid weekly or 'living at home' increases the likelihood of keeping tally in your head. There is a segment of people (12%) who do not know the amount in their current account to within £100; this is markedly higher (26%) for those earning £30-£40,000 a year. Interestingly, young adults aged between 18 and 24 are most likely to know their balance within £10 using a number of sources to manage their money, including their bank's website, mobile apps and cash machines.

There is however more to managing money than knowing how much is in your account and checking for suspicious transactions. Creating a budget, sticking to it, and not bowing to external pressures are all important.

Nearly half (46%) of people make a personal budget and of those, half do so monthly. Those on benefits are more likely to budget (49%) but only a third do so monthly with a corresponding increase in those managing money week to week. These people will need to change their budgeting habits with the introduction of to Universal Credit (which replaces existing weekly benefits with a single monthly payment) and be particularly aware of months with five rather than four weekly shopping trips.

How do you keep track of your income and expenditure?

Method	Percentage
By checking my bank balance	70%
By reviewing my bank statements	50%
In my head (mentally)	24%
A spreadsheet	17%
A piece of paper	15%
An online budgeting tool	5%
Computer program/software package	1%
Accounts/note book	1%
Other	2%

Base: 4,368 (all those who keep track)

Of those that make a budget, four out of five stick to it – at least most of the time. The remaining fifth however have difficulty keeping their spending in line with the budget they've set themselves. This attitude is often fuelled by external social pressures, for example a similar sized group said that if they received an expensive gift then they would spend more than they could afford to match the present's value in return, and 18% stated that if they were asked out for the evening they would still go even if they couldn't afford it.

This attitude towards spending also applies to major expenses with 18% willing to buy a holiday and work out how to pay for it after the event. Interestingly, and perhaps counter to perception, those most likely to do so are aged 35 to 44 (22%), not young adults, who are least likely (16%) to do so.

"If the next door neighbour or the bloke down the road gets a state-of-the-art car or something, don't try and keep up with him. Try and live within your means…"

A good behaviour shared by almost all of us (93%) is to shop around when buying expensive items. It is notable however, that those using the internet once a week or less are much less likely to shop around; something which reinforces the importance of opportunities, both in the physical and digital worlds.

Understanding and navigating our financial environment

Skills and knowledge are important factors in managing money well; there is no point shopping around if you can't identify the best deal!

The majority of us have a basic level of understanding and ability to get the best value for money. However there is a significant minority for whom gaps in their skills and knowledge leave them vulnerable to poor decision making – and age is an important factor.

Skills

When shown a sample bank statement, 16% of people failed to correctly identify the available balance, with this rising to over a quarter of those aged over 55. This demonstrates the importance for the financial services industry of properly understanding customers when drafting, reviewing and simplifying product information and literature, including terms and conditions.

There is a growing body of evidence that full disclosure of information is not helpful for a large proportion of the population who are not able, or indeed willing, to translate financial terms and conditions into implications for themselves.

More positively, 90% of people were able to identify the better deal from two financial options; but again, of those aged over 55, nearly one in five picked the wrong option.

Knowledge

When it comes to financial matters a significant number of people have gaps in their knowledge, in particular among the under 35s.

More than one in eight (12%) believe the current Bank of England base rate to be over 10%. This rises to one in six (17%) of those under 35, figures which should be borne in mind when the implications of an increase in the base rate need to be communicated to people with mortgages.

Also worrying, not least with the ambition in mind of getting more people into workplace pension schemes through automatic enrolment, is the level of knowledge of how pensions work.

One in seven (14%) of those under 35 think it is better to start paying into a pension in your fifties rather than in your twenties. This compares with just one in 20 (5%) of those aged over 45.

The impact of inflation is clearly not understood by a large proportion of the population. When asked to identify whether inflation at 5% would have eroded the purchasing power of money in an account paying 3% interest over a third of people (35%) got this wrong. Startlingly, this rose to 43% of those aged under 35.

90%

of people were able to identify the better deal from two options

Demonstrating financial capability

Saving for rainy days

Nearly two thirds of the population believe it's a good idea to have money saved for a rainy day and over half of us are saving monthly in some form. Only 44% of us have saved up more than three months' income (around £8,000 for a household with two people working, Office for National Statistics, Regional Household Income data). When it comes to saving regularly age is not a key factor, however, being paid monthly is, perhaps this is due more to the visibility of a lump sum and the ease of putting money away, and less to a feeling of 'going without.' Frequency of payment also correlates with how people save. Those paid weekly are more likely to save with cash and a money box, and those paid monthly with an Individual Savings Account (ISA). This has implications for how to encourage more people to save, with different messages required depending on how people receive their income.

The attitude of many young families is not to embark on saving when they still have debts. While this may be sensible, it does require careful consideration of individual circumstances when designing interventions to encourage savings habits and the provision of 'rainy day' funds for dealing with the unexpected.

"There is no point saving when you have got a loan.
It would be topsy-turvy financially..."

How strongly do you agree or disagree with the following statement: I always make sure I have money saved for a rainy day
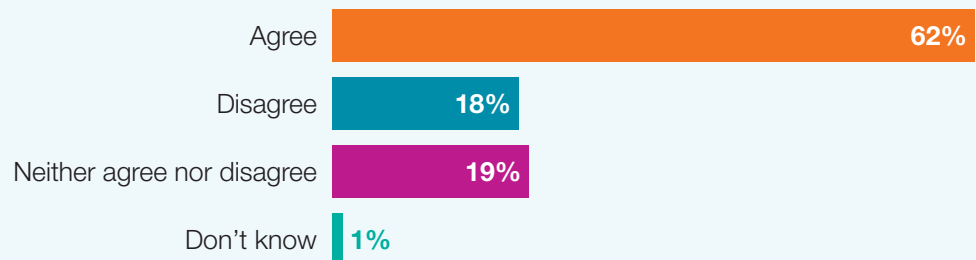
Agree	62%
Disagree	18%
Neither agree nor disagree	19%
Don't know	1%

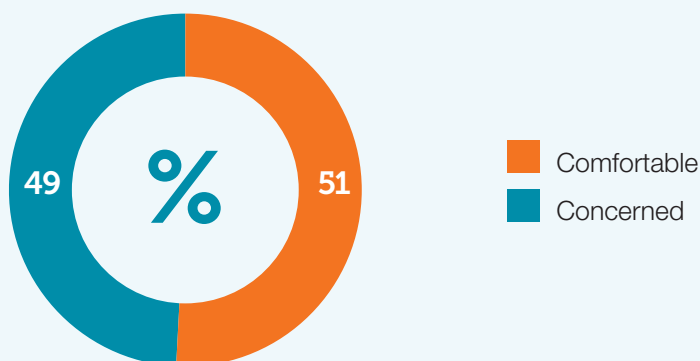Base: 5,079

'Expect the unexpected'

While some of us have amassed some savings, only 58% of us could cover a £300 unexpected bill. The remaining 42% would have to think about how to pay for it. However one fifth of respondents had experienced a significant drop in income over the last three years and one in seven had incurred an unexpected expense of a month's salary or more. The scouting movement motto, 'Be Prepared' can be well applied to money.

Over half of the people affected by a drop in income do change their behaviour as a result. Commonly people cut back and endeavour to save more. Nearly one in five who change their behaviour reduce the number of debit and credit cards they have. Our qualitative research suggests this is to ensure a tighter control on finances.

Over a quarter of unexpected expenses were to do with cars, either buying a new one or getting the old one fixed. Home improvements, moving home and the cost of replacing boilers or white goods accounted for a further third and health or family matters (new babies, weddings, vets' bills, funeral costs or helping a family member) made up another 12%.

While family life frequently involves unexpected events, families can also be useful when it comes to dealing with the associated costs. For a quarter of people that had incurred a major unexpected expense, family and friends helped out either through a gift or a loan – more than the number that fell back on credit cards, loans or extended mortgage arrangements. One in twenty sought to increase their income though extra hours or second jobs; some (17%) made cut backs; and many had some savings to, at least in part, put towards the expense.

27%

of unexpected expenses were to do with cars, either buying a new one or getting the old one fixed

How do you feel about your current finances?

49

%

51

■ Comfortable
■ Concerned

Base: 5,079

Whether a drop in income or an unexpected expense, in each case, just one in fifty people (2%) claimed on an insurance policy as a result. The use of insurance varied widely with older people typically having more cover. There are many however, who could potentially benefit from more appropriate insurance. Issues of consumer trust remain, with only 38% of those surveyed stating that they trust what is written in insurance policies. The dominant factor for low take up, however, appears to be a lack of understanding and being of no benefit "right now".

Saving for retirement

The pensions challenge is well researched and documented and our research provides further evidence: only 28% of people surveyed were paying into a pension. Just over half (52%) feel a pension is the best way to save for retirement, rising to 60% of those aged over 55. Nearly a third of people (30%) neither agreed nor disagreed, suggesting that they may be open to persuasion. With only 4% strongly disagreeing, this perhaps bodes well for the potential of automatic enrolment into workplace pensions.

"65 seems too far off and I can't imagine planning for that age. It seems so far in the future…"

While those approaching retirement feel pensions offer a good vehicle, 35-44 year-olds have other plans. Nearly one in five of this group expect some inheritance and a similar proportion expect to, in some way, use the value in their property. This raises issues if parents use the money they might otherwise bequeath to their children to finance their own senior years.

88%

never or hardly ever run out of money before the end of the week or month

Different needs, different approaches

Statistical modelling allows us to split the UK population into four subgroups with different needs and approaches when it comes to making the most of our money. Individuals can have characteristics from more than one segment but all of us can probably think of someone that we would place in each of the segments. We have provided four case studies from our ethnographic research, one for each segment, which epitomise the type of person to whom we are referring.

Segment 1: Healthy finances

Sixteen million people have 'healthy finances'. Typically this group is older (average age 50), more likely to have degree-level education, and 90% see themselves as 'very organised money managers'. They have much higher take up of insurance products and almost no-one in this group has a payday loan.

Read Barbara's story on page 20

Segment 2: Focused on the now

Spanning both young and old, this group includes 14 million people, most (80%) of whom are very organised when it comes to managing their money day-to-day. However, they are not so good at considering the future or unexpected incidents that could blow them off-course. Less than half this group have contents insurance and very few (13%) take up life insurance.

Their attitude can be summed up by the statement, to which many agree:

"I prefer to live for today than plan for tomorrow..."

Read Charlotte's story on page 21

15%

have a personal loan, well above the national average of 9%

Segment 3: On the edge

Not the most organised of people, the 10.5 million in this segment make it through life as much by circumstances working in their favour as by budgeting. Less likely to feel organised when it comes managing their money, a quarter run out before the end of the week or month most of the time. They are more likely to have loans whether personal, through the mail order catalogue or as a payday loan.

Read Paul's story on page 22

Segment 4: Help required

Nine million people need urgent help with managing their money. Younger than the other segments on average, 44% of this group stated that they always or most of the time ran out of money before the end of the week or month. Over a third are either falling behind with some bills or other commitments or describe themselves as having real financial problems.
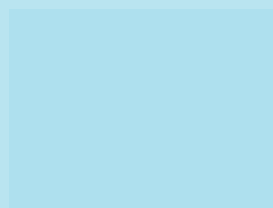
The majority in this group say:

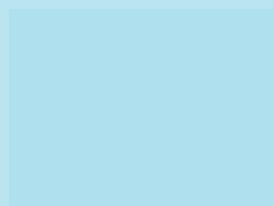**"Keeping up with bills or credit commitments is a constant struggle."**

Read Karen's story on page 23

My story

Barbara
75, Retired,
Bristol

"Some goes into my current account if I want to buy things and some goes into my savings. You've got to have a system…"

Barbara is from a working class family who were comfortable financially. She previously worked in a variety of professions (nursing, and as dinner lady) and misses work having only recently retired. Barbara was widowed in her forties and lives alone, but she has two children and is very close to her daughter and her three grandchildren.

Her main incomings are a few pensions from her late husband and her state pension. She doesn't struggle with money but continues to be very careful and well organised with it.

She has enough money for all her needs, and enjoys making home improvements which she saves up for. This investment is driven by the feeling that she needs to keep the house in good condition for when she leaves it to her daughter.

She keeps her system for dealing with money very simple, drawing out the same amount each month to cover her living expenses. The remainder is withdrawn at the end of the month and paid into her Savings Account. She has been using this system for a number of years.

Throughout the month she keeps track of her money by noting down the main expenditures leaving her account (such as car tax, house and washing machine insurance), though she has very few outgoings having downsized 11 years ago to become mortgage-free. Barbara pays her household bills in cash on a specific week of each month after receiving her pension because she prefers to spend money this way rather than on a credit card, so she can keep track. Other costs are set up as direct debits so she does not have to worry about them. She knows broadly how much she has in her account.

She likes her dealings with money to be handled face to face and prefers not to be involved in technology or terminology that she doesn't understand or trust. She recognises this is different to her children and grandchildren but has no intention of changing. She understands this difference between her generation and those that follow, but feels that younger generations have a different, more reckless attitude towards money and spending.

My story

Charlotte
25, Personal Assistant, London

"I know I should [sort out a pension]... but I'm not sure about it... I'm 26 in September and I said I'd look at it when I was 25"

Charlotte is a 25-year-old graduate who has recently moved in with her boyfriend. She socialises a lot, usually with friends from work and she also makes a lot of effort to keep in touch with old school and university friends.

Charlotte enjoys her job and has a strong sense of career direction. The nature of her role and remuneration form an important part of this. But this has to fit with her lifestyle and her need for balance – in particular, having evenings free to socialise.

Charlotte gets her key attitudes balancing thrift and enjoying money within her budget, from her parents. She feels that she's lucky as a lot of families don't discuss finances.

Charlotte is organised with her finances day to day and tracks her spending throughout the month. She pays for most things on her credit card so that she can easily track her spending and checks her accounts online and by using an app on her phone.

She has two bank accounts – one for her salary, and one for spending. This works well for her as it means that she doesn't have to worry about overspending day to day.

Although she allows herself £400 a month to spend freely, without keeping track of where it goes, she views a lot of her spending as an 'investment': she doesn't spend a lot of money on clothes, rarely buying them full price, but she does sometimes spend money on expensive fashion items. These tend to be jewellery and handbags that she knows she will always be able to wear and whose value will last.

While Charlotte feels well informed and confident about her finances for the now, she doesn't have a pension yet. Her employer has a good scheme which will double any contribution she makes between 5% and 10% but Charlotte isn't sure whether she'd be better off saving or investing the money elsewhere instead. As yet she hasn't got round to working out what to do both specifically in terms of her pension and more widely on issues like protecting and planning her and her boyfriend's financial future.

My story

Paul
23, Temporary worker, Leeds

"At the age I'm at it's very easy to spend all your money going out…"

Paul is 23 years old and lives at home with his Mum. He does not contribute to the household finances and generally spends most of what he earns on clothes and nights out with friends.

Paul thinks week to week about money and only plans ahead if there is something he really wants to do. For instance, if there is a concert for which he wants tickets. Being paid every Friday means all of the week's earnings are available over the weekend and if he spends a lot he has to get through until payday without any funds. At times he borrows money from his family with the intention of paying them back when he next gets paid. The reality is that while he pays his sister back, he rarely repays his mother.

He checks his account using mobile banking and at cash points. Typically, he does this after the weekend to see by how much he has overspent. He will then decide if he needs to borrow money to avoid going beyond his overdraft limit. He rarely enters credit in his account.

Paul and his friends have used pay-day lenders a few times, the last occasion for Paul was when he took out a loan of £70 for a night out, paying back around £100. Paul knows that as he is in temporary work this could be risky if he borrowed a large amount and then couldn't get more work, although ultimately he is confident that his family would help him.

He does not have any concrete financial goals and while he would like a house and is always on the lookout for a job which would pay more, he is not taking any proactive steps to achieve this. For Paul to save money he would, in reality, not be able to go out at all; something he isn't prepared to consider at the moment.

Paul thinks that the way he approaches his finances is typical for someone his age and isn't worried – he just wants to have fun while he is still young.

My story

Karen
43, Social worker,
Leicester

*"I live in my overdraft,
 it's not good…"*
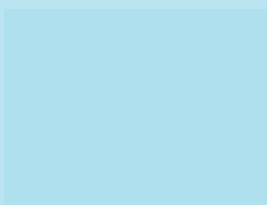
Karen lives in Leicester with her partner and her two daughters both under 14. She loves her job as a full-time social worker and recently started a course in alcohol and drug counselling.

Money is a significant source of stress and unhappiness for Karen. She is in debt from years of overspending on clothes, extravagant birthday parties, and trips away, with a lot of her spending going on her children.

Karen has made efforts to cut back, by stopping going out, buying own-brand products, and selling her car and other possessions. This had a huge emotional effect when selling very personal items like family gold. She now questions expenditure in a way that she wouldn't have in the past.

Karen has cut up her credit cards and found denying her family luxuries was particularly hard before Christmas. At this point, Karen had to reluctantly explain their poor financial situation to her daughters.

Karen and her partner take responsibility for different bills. He pays the 'big' bills (mortgage, gas and electricity) and she takes on the smaller costs. This, and the fact they have separate bank accounts, prevents her from properly keeping track of their finances. However, Karen dislikes the idea of a joint account because she's concerned she could spend all his money.

Her friends are aware of her situation and help out. She'd accept small amounts from them, but not big amounts, like money for a new car. However, she is generally distrustful of people and finds talking to others about her financial situation or approach to money management uncomfortable.

With the exception of a savings account for her children and studying for a degree to improve her career, Karen does not plan ahead. She is 'getting by' – busy juggling children, university and work – and sees no escape from her current situation. She is fearful that she may have to sell her house and downsize, however moving is her worst case scenario. Her relationship is also strained and while she had considered splitting up with her partner, she knows that doing so would put her in a financially worse position than she is in already.

03

Where next?

25%

How do we engage the 25% of the population who prefer to live for today rather than plan for tomorrow?

16%

How can we help the 16% of people unable to identify the balance on a bank statement?

Conclusion

Things change. And as a nation we have, over recent years, had to re-evaluate assumptions that we thought were fact. In 2006 there was a general feeling that house prices could only go up, that wages would continue to increase and that pension pots could and would provide.

Few foresaw the pressure on real spending power that is now affecting so many.

Things change at an individual level too. A third of us have experienced a shock to our finances over the last three years. Often with these shocks comes a realisation that we aren't always fully equipped to handle changes in our own financial wellbeing.

Skills, knowledge and our attitudes are all core elements of good money management. We should be worried that 16% of the population can't read a bank statement and three in ten can't pick the best out of three Individual Savings Accounts. We should be concerned that over a third (35%) of us don't understand the impact of inflation, which for many erodes the true value of our savings and our income. And we should seek to help the near one in five who continue to spend even when they know they can't afford it, both for them as individuals and for those, including family, industry, and the government who often pick up the bill.

We should welcome the fact that across the UK people are making real efforts to cope with the situations they face, for example by checking their bank statements more closely, and continuing to save.

There is a need for us all to work together. Government, the third sector, industry, educators, advice providers and individuals all have our roles to play. New approaches, including behavioural economics, offer innovative solutions. We need to harness these emerging opportunities and make sure they are used to address, not exacerbate, the financial capability needs of the UK.

We must build on what has gone before. There are many existing examples of interventions and approaches that help people manage their money well. Piggy banks have been encouraging children to save since the 15th Century, which is important given money habits are often established by the age of seven. Debt advice helps nine out of ten people who receive it to take action as a result, according to research by the Money Advice Service.

This is why the Money Advice Service is working together with a range of organisations to develop a UK strategy for financial capability, to help us all direct efforts towards creating a more financially capable nation. The research set out in this report will help to identify the key issues that we all need to address in the strategy. Our tracker research will continue, enabling us to gauge how the UK's financial capability is changing and how effective the strategy is in driving change.

This report shows it's not all doom and gloom. While times are tough people see the importance of being in control of their money and increasingly we understand how to empower them to do so. We want people to manage their money well, and so be in better shape to weather life's ups and downs and reach goals and aspirations. Working together we can improve financial capability and as a result help people live fuller lives.

04

Appendices

Appendix 1

Additional data

This appendix contains graphs and tables which allow interested readers to explore results from other questions in the financial capability tracker survey.

In its 2013/14 Business Plan the Money Advice Service sets out a strategy for helping people to manage their money better. The focus is to first of all get them to think about their money and 'regularly review their finances,' then to encourage them to take action in the five key 'outcome' areas; managing debt, saving regularly, saving for retirement, protecting assets, and making provision for dependents.

The table below shows the proportion of the general population who are completing each of the outcomes. These figures are based on the first wave of the financial capability tracker and the Money Advice Service will continue to measure each of the outcomes using the survey on a regular basis throughout 2013/14.

Table 1: Money Advice Service outcomes

Outcome	Question	UK population (Base: 5,079)
Regularly reviewing your money	Do you keep track of your income and expenditure?	84%
Managing debt well	In the last six months have you missed more than one payment on a loan, credit agreement, mortgage or had an unauthorised overdraft charge?	13%
Saving regularly	Do you save some money each month?	53%
Protecting your assets	Do you have home contents insurance?	53%
Providing for your dependents	Do you have life insurance that pays out on death?	26%
Outcome	Question	(Base: All non retired 3,452)
Saving for retirement	Are you currently paying into one or more pensions?	28%

How well are you keeping up with your bills and credit commitments?

Response	Percentage
I am/we are keeping up with all bills and commitments without any difficulties	39%
I am/we are keeping up with all bills and commitments, but it is a struggle from time to time	31%
I am/we are keeping up with all bills and commitments, but it is a constant struggle	15%
I am/we are falling behind with some bills or credit commitments	4%
I am/we are having real financial problems and have fallen behind with many bills or credit commitments	2%
I/we don't have any bills or credit commitments	4%
Prefer not to say	3%
Don't know	3%

Base: 5,079

Getting in to debt?

Response	Percentage
Bothers you	90%
Does not bother you	10%
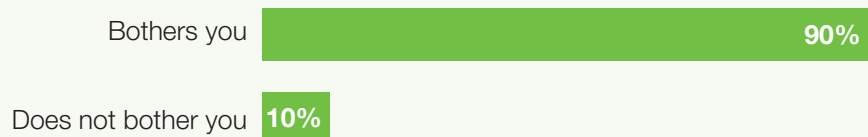
Base: 5,079

Money is something that you...?

Discuss openly with
friends/family — **68%**

Are uncomfortable
talking about — **32%**
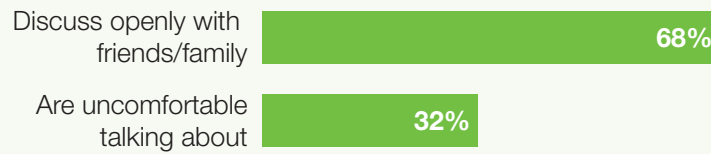
Base: 5,079

When it comes to money, you prefer to...?

Plan for the future — **68%**

Live for the day — **32%**
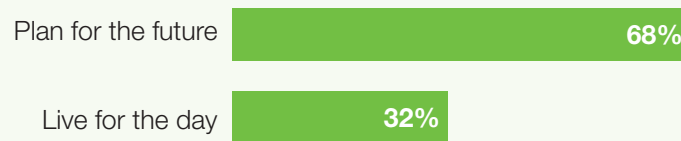
Base: 5,079

Saving money for a rainy day is...?

Important — **88%**

Unimportant — **12%**

Base: 5,079

It is three days before you are paid or receive some benefits...

You have money left for the
next three days — **64%**

You have to cut back for the
next three days — **36%**

Base: 5,079

In order to know how much you can spend shopping, do you...?

Check your bank balance — **81%**

Guess how much you have — **19%**

Base: 5,079

A child's birthday present costs £30, but you only have £20.

You get something else costing £20 — **85%**

You borrow £10 to get the present — **15%**

Base: 5,079

When buying Christmas presents, you...?

Set a budget and stick to it — **78%**

Don't worry about what you spend — **22%**

Base: 5,079

Before going to the shops you...?

Write a list of what you want — **60%**

Remember what you want in your head — **40%**

Base: 5,079

When taking money out of a cash machine, you...

Check your balance first	**66%**
Withdraw money without checking	**34%**

Base: 5,079

If you're planning for a holiday in a year's time do you...?

Save up, then see what you can afford at the time	**82%**
Buy, then think how to pay later	**18%**
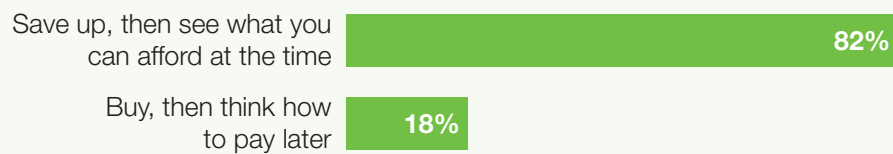
Base: 5,079

The best age to start a pension is...?

In your twenties	**91%**
In your fifties	**9%**
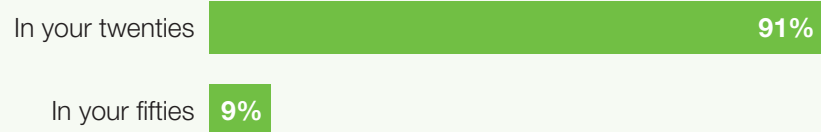
Base: 5,079

"I am very organised when it comes to managing my money day to day."

Agree	**67%**
Disagree	**15%**
Neither agree or disagree	**17%**
Don't know	**1%**
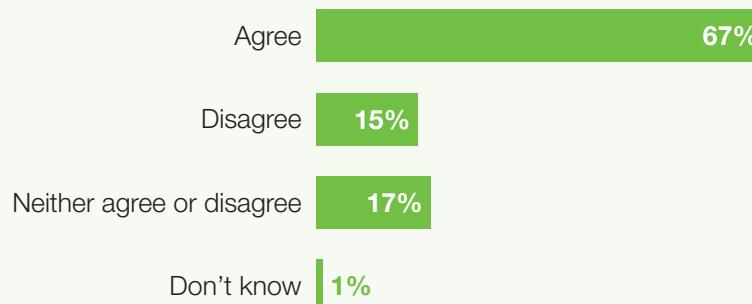
Base: 5,079

"I am more of a saver than a spender."

Agree	45%
Disagree	26%
Neither agree or disagree	28%
Don't know	1%
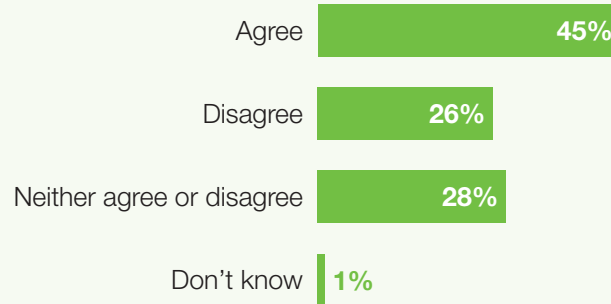
Base: 5,079

"I tend to buy things when I can't really afford them."

Agree	17%
Disagree	67%
Neither agree or disagree	15%
Don't know	1%
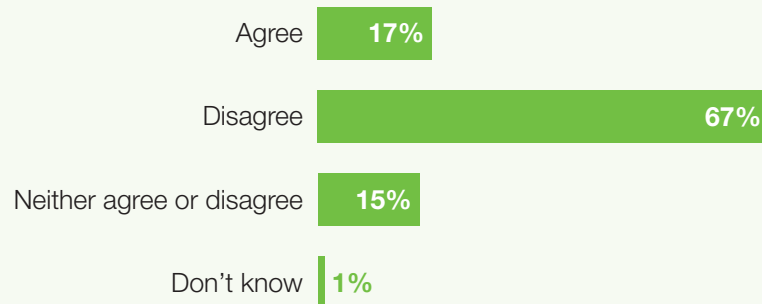
Base: 5,079

Do you keep track of your income and expenditure?

Yes	84%
No	16%
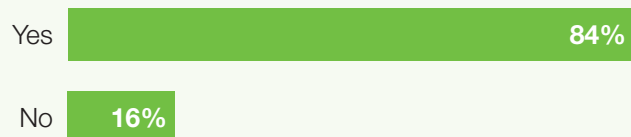
Base: 5,079

Which of the following do you have?
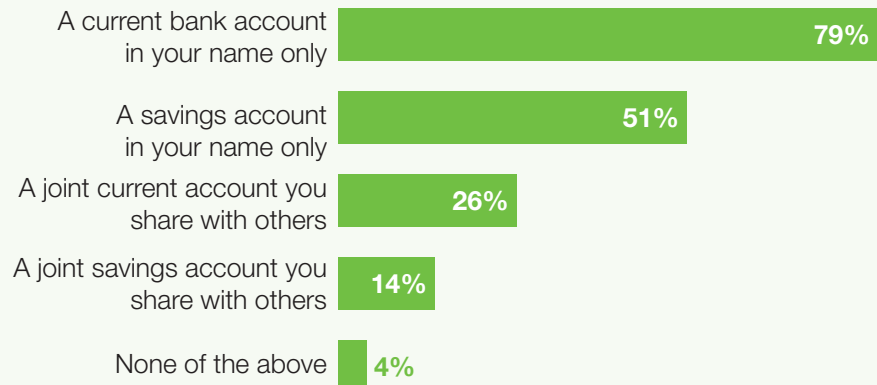
A current bank account in your name only	79%
A savings account in your name only	51%
A joint current account you share with others	26%
A joint savings account you share with others	14%
None of the above	4%

When answering this question people could choose more than one answer, so the total does not sum up to 100%

Base: 5,079

Which, if any, of the following methods do you use to check how much money is in this account?

Online through my bank's website	62%
A bank statement sent in the post	36%
Ask for a balance or mini-statement at the bank/post office or using a cash machine	36%
By using a mobile phone app	14%
A text message from bank	6%
Phone the bank and ask for a balance	5%
I do not check how much money is in this account	1%
Don't know	1%

When answering this question people could choose more than one answer, so the total does not sum up to 100%

Base: 4,787 (all those with a current account)

Which, if any, of the following describe what you do to keep track of the money in this account?

Check the balance	75%
Regularly check all incomings and outgoings	59%
Look out for suspicious incomings or outgoings	44%
File and retain statements	30%
Compare receipts/spending against the statement	25%
Compare spending between one month and another	16%

When answering this question people could choose more than one answer, so the total does not sum up to 100%

Base: 4,673 (all those with a current account who check how much is in it)

How often do you normally check how much money is in this account?

Every day	13%
At least once a week, but not every day	51%
At least once a fortnight, but not every week	15%
At least once a month, but not every fortnight	13%
Less than once a month	5%
Never	1%
Don't know	2%

Base: 4,787 (all those with a current account)

"I am never late in paying my bills."

Agree	76%
Disagree	13%
Neither agree or disagree	10%
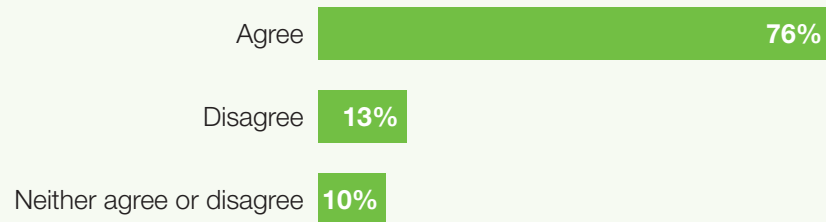
Base: 4,151 (all those who pay bills)

"I am happy to pay bills by direct debit."

Agree	76%
Disagree	14%
Neither agree or disagree	9%
Don't know	1%
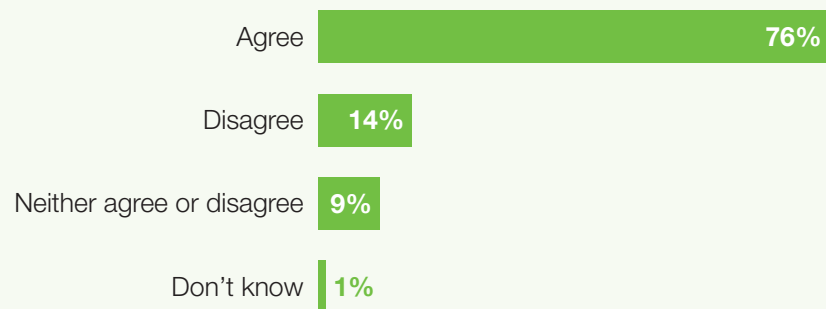
Base: 4,151 (all those who pay bills)

"I ensure that I have enough money available to pay for bills when they are due."

Agree	86%
Disagree	5%
Neither agree or disagree	8%
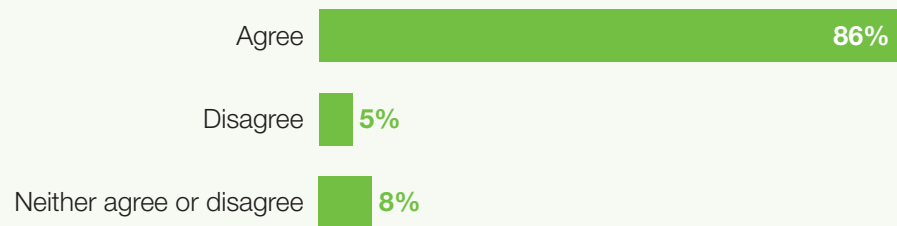
Base: 4,151 (all those who pay bills)

Look at the following list of loan and credit products, and select any that you currently have, either in your own name or jointly with someone else.

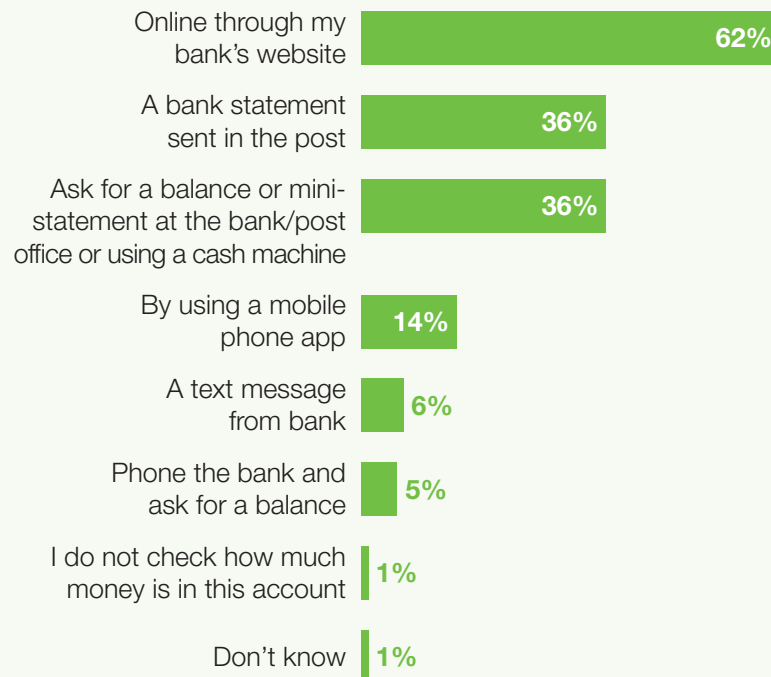|	
Credit card or store card	36%
Mortgage	19%
Student loan	12%
Personal loan with bank or building society	9%
Mail order catalogue arrangement to buy goods in instalments	6%
Informal loan from friends or family	4%
Hire purchase, credit sale or rental purchase agreement	4%
A loan from another type of lender	3%
Loan from an online payday loan provider (from companies such as Wonga, QuickQuid, KwikCash)	2%
I do not have any of the above	37%
Prefer not to say	5%
Don't know	1%

When answering this question people could choose more than one answer, so the total does not sum up to 100%

Base: 5,079

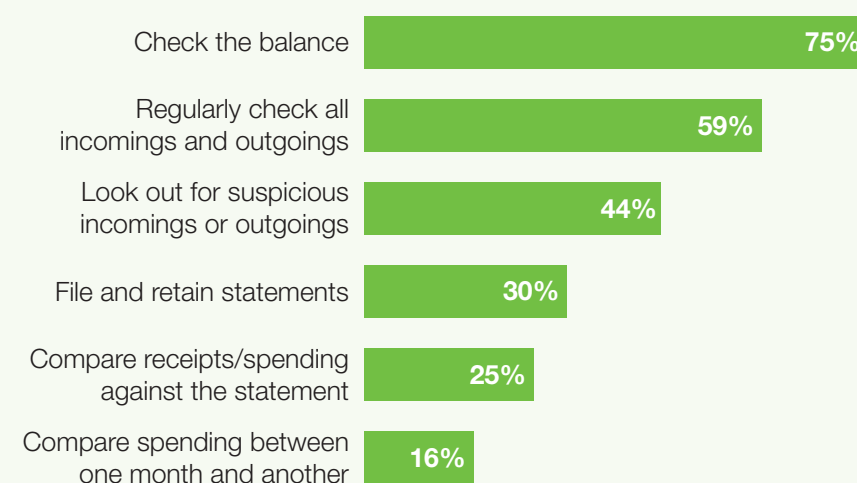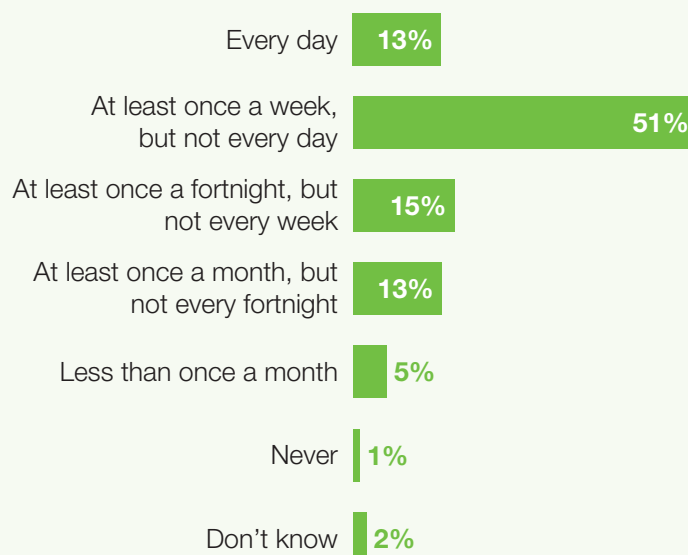**"...in the last 12 months, how often, if at all, have you run out of money before the end of the month?"**

Always/most of the time — **14%**

Sometimes — **22%**

Never/hardly ever — **62%**

Don't know — **2%**
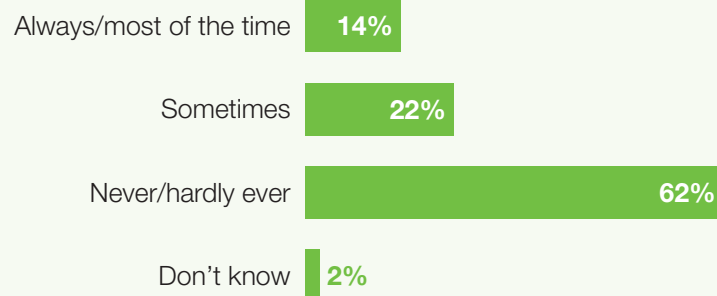
Base: 5,079

"...in the last 12 months, how often, if at all, have you used a credit card or store card in order to pay for something because you did not have the money at the time?"

Always/most of the time — **8%**

Sometimes — **32%**

Never/hardly ever — **60%**
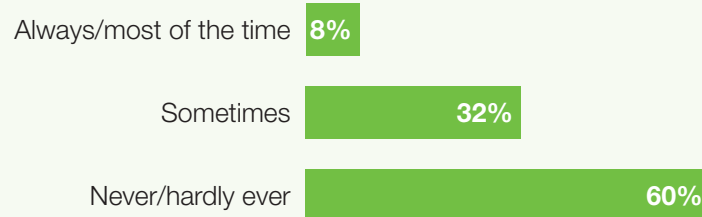
Base: 2,045 (all those who have credit store cards)

"...in the last 12 months, how often, if at all, have you used an overdraft in order to pay for something because you did not have the money at the time?"

Always/most of the time — **10%**

Sometimes — **13%**

Never/hardly ever — **76%**

Don't know — **1%**
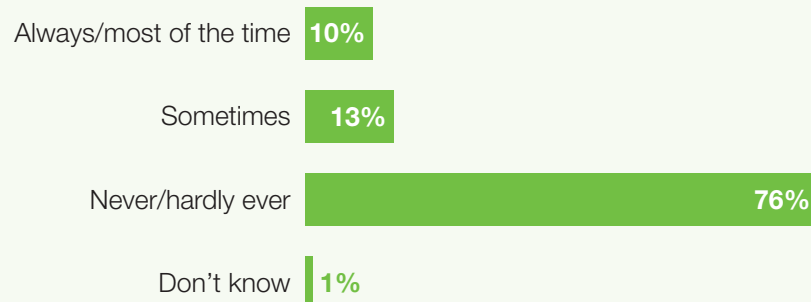
Base: 4,907 (all those who have a bank account)

What have you done to deal with your missed payments or overdraft charges?

I have tried to manage my money so I don't miss any more payments	39%
I have started making up or have already made up for the missed payments	39%
Spoken to my lender	18%
I have not done anything to deal with these missed payments	11%
Spoken to a friend or family member	8%
Looked on the internet	6%
Spoken to the Citizens Advice Bureau (CAB)	5%
Prefer not to say	1%
Don't know	3%

When answering this question people could choose more than one answer, so the total does not sum up to 100%

Base: 608 (all those who have missed more than one payment or received overdraft charges)

"I always make sure I have money saved for a rainy day."

Agree	62%
Neither agree nor disagree	19%
Disagree	18%
Don't know	1%
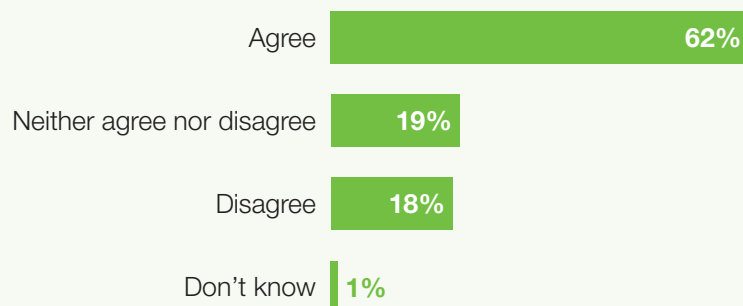
Base: 5,079

"I tend to buy things on credit rather than save up."

Agree	13%
Neither agree nor disagree	15%
Disagree	70%
Don't know	2%
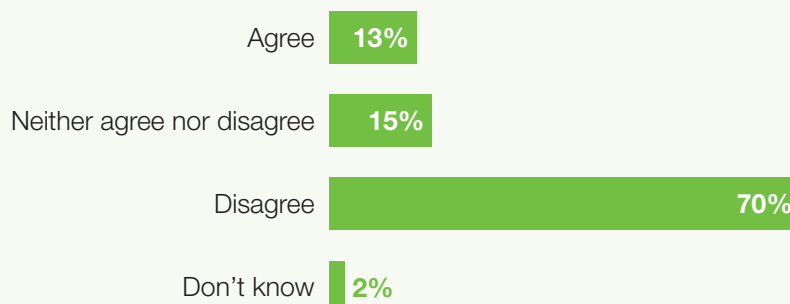
Base: 5,079

Which of the following best describes how long you usually plan your budget for?

Weekly	31%
Fortnightly	10%
Monthly	51%
Less frequently than this	2%
It varies too much to say	6%
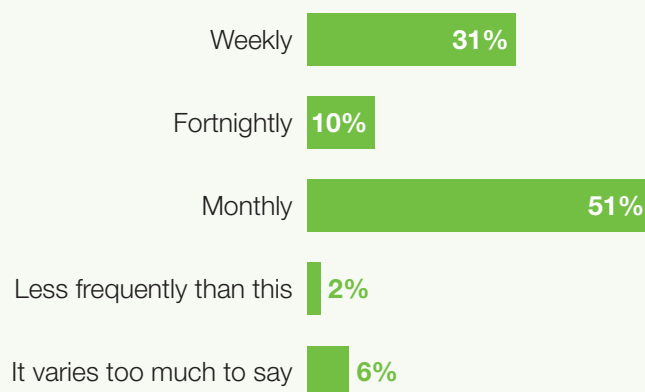
Base: 2,366 (all those who set a personal budget)

How often, if at all do you end up sticking to the budget you set?

Always	21%
Most of the time	60%
Sometimes	15%
Hardly ever	3%
Never	1%
Don't know	1%
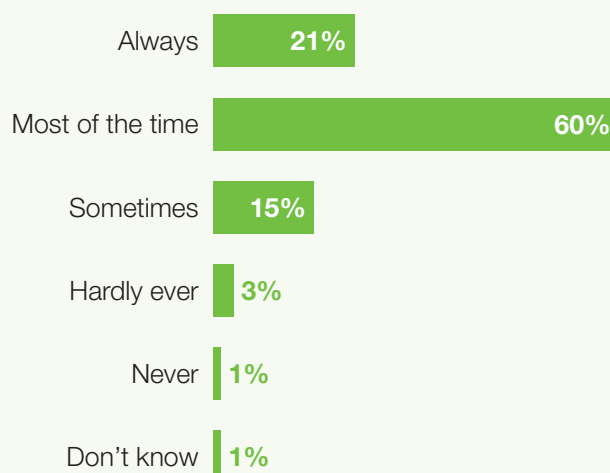
Base: 2,366 (all those who set a personal budget)

How do you plan to pay for this expense?
(all those who expect a major expense in the foreseeable future)
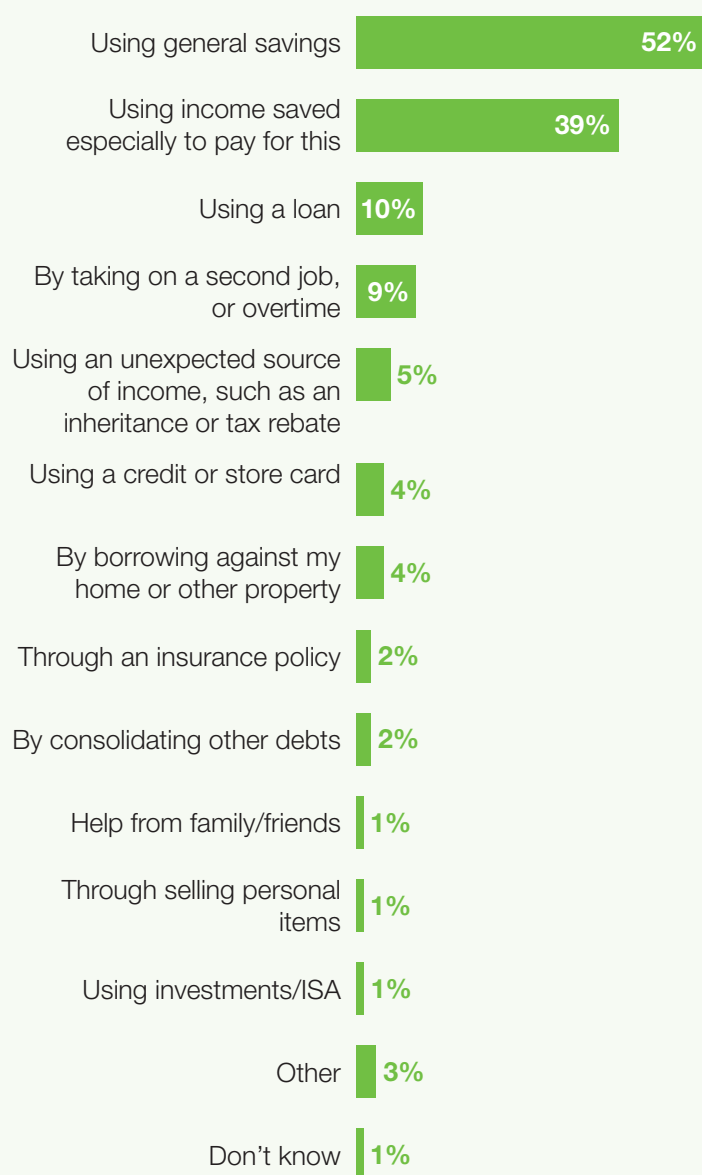
Category	Percentage
Using general savings	52%
Using income saved especially to pay for this	39%
Using a loan	10%
By taking on a second job, or overtime	9%
Using an unexpected source of income, such as an inheritance or tax rebate	5%
Using a credit or store card	4%
By borrowing against my home or other property	4%
Through an insurance policy	2%
By consolidating other debts	2%
Help from family/friends	1%
Through selling personal items	1%
Using investments/ISA	1%
Other	3%
Don't know	1%

When answering this question people could choose more than one answer,
so the total does not sum up to 100%

Base: 1,331 (all those who have made financial plans for how to pay for an expense they anticipate
in the foreseeable future)

In the last three years, have you experienced a large drop in your income which you did not expect?

Yes	21%
No	75%
Prefer not to say	4%
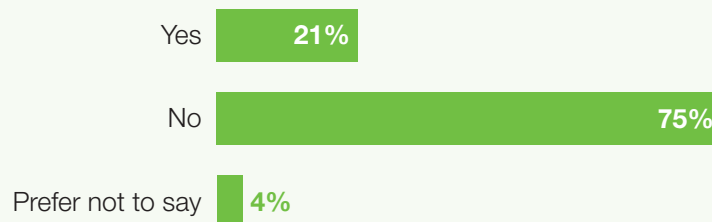
Base: 5,079

What caused the large drop in income you experienced?

Losing your job, being made redundant or leaving work through ill health	39%
A change in your salary	18%
A change in hours at work	16%
A change in your personal circumstances such as separating from a partner	11%
Having to pay back debts	9%
Having a baby	7%
A change in benefits/benefit cuts/bedroom tax	5%
Lower interest rates/on savings/returns on investments	2%
Partner/family member/not working/made redundant/lost job	2%
Increase of living expenses/cost of living/ inflation/bills	2%
A child needing money for something such as university fees, a wedding etc.	2%
Sickness/disability/health reasons/accident	2%

Base: 1,152 (all who have experienced an unexpected large drop in income)

Which, if any, of the following actions did you take, or are you currently taking, to try to make ends meet when you suffered this large drop in income?

Action	Percentage
Cut back on spending	67%
Used money from a savings account	30%
Sold some of my belongings that I no longer needed	26%
Claimed social security benefits	21%
Borrowed money from family/friends	18%
Got a job/got a second job/worked additional hours in existing job	15%
Used a credit card, store card or overdraft	15%
Made arrangement with creditors to pay less/ suspend payments	8%
Used a redundancy payment	7%
Took out a loan (including a pay day or Social Fund loan)	7%
I did not take any action	7%
Claimed on an insurance policy	2%
Moved house	1%
Other	2%

When answering this question people could choose more than one answer, so the total does not sum up to 100%

Base: 1,152 (all who have experienced an unexpected large drop in income)

Which of the actions you took made most difference to your financial situation?

Action	Percentage
Cut back on spending	37%
Used money from a savings account	11%
Got a job/got a second job/worked additional hours in existing job	8%
Claimed social security benefits	8%
I did not take any action	7%
Borrowed money from family/friends	5%
Used a credit card, store card or overdraft	4%
Made arrangement with creditors to pay less/ suspend payments	4%
Took out a loan (including a pay day or Social Fund loan)	3%
Used a redundancy payment	3%
Sold some of my belongings that I no longer needed	3%
Other	2%
Prefer not to say	2%
Claimed on an insurance policy	1%

Base: 1,152 (all who have experienced an unexpected large drop in income)

Have the changes you made to the way you manage your money included any of the following?

Category	Percentage
Cut back on spending	79%
Put more money aside in savings	19%
Reduced the number of credit cards or store cards you use	19%
Applied for other benefits	16%
Increased the amount of time you work	12%
Consolidated debts into more manageable payments	10%
Reduced the amount you pay off your mortgage	3%
Increased the number of credit cards or store cards you use	3%
Decreased the amount of time you work	3%
Increased the amount you pay off your mortgage	3%
Other	2%
None of the above	2%

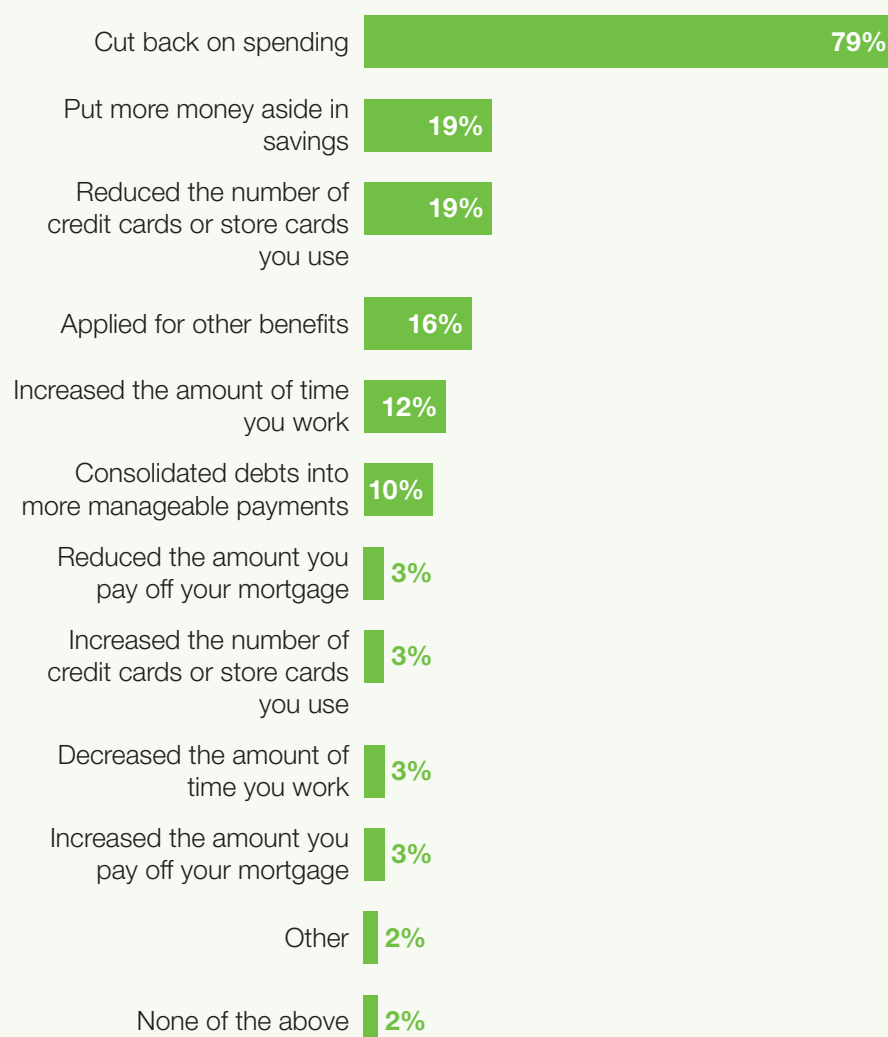When answering this question people could choose more than one answer, so the total does not sum up to 100%
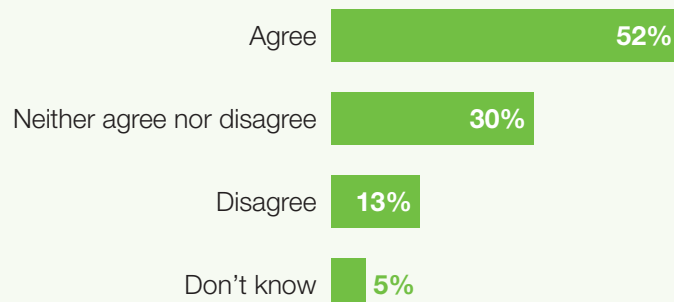
Base: 603 (all those who have experienced a drop in income and made changes to the way they manage their money as a result)
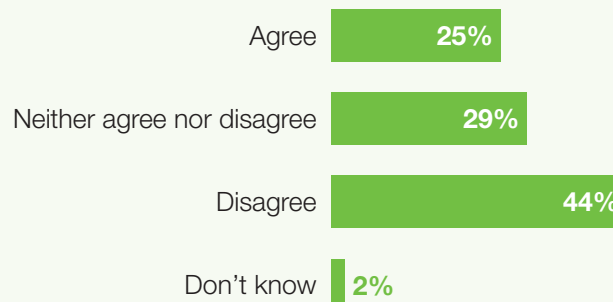
For how long have you had this drop in income?

Category	Percentage
Less than a month	4%
More than one month but less than three months	10%
More than three months but less than six months	13%
More than six months but less than twelve months	18%
Twelve months or more	54%
Can't remember	2%

Base: 854 (all those who are still experiencing a drop in income)
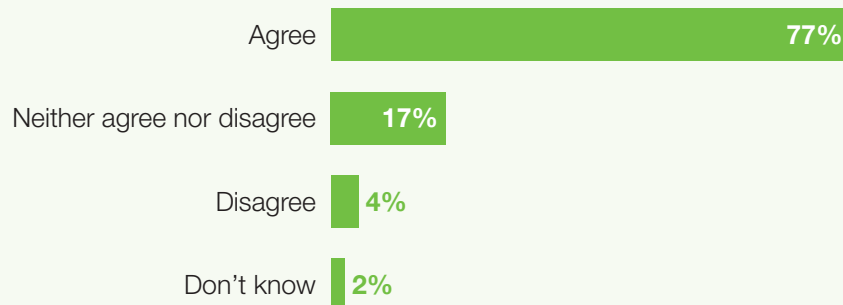
"Pensions are the best way to save for retirement."

Category	Percentage
Agree	52%
Neither agree nor disagree	30%
Disagree	13%
Don't know	5%

Base: 5,079

"I prefer to live for today than plan for tomorrow."

Category	Percentage
Agree	25%
Neither agree nor disagree	29%
Disagree	44%
Don't know	2%

Base: 5,079

"It is important to have some money saved in case my life changes dramatically."

Agree	77%
Neither agree nor disagree	17%
Disagree	4%
Don't know	2%

Base: 5,079

"I have a plan for how to pay for the care I will need in my old age."

Agree	26%
Neither agree nor disagree	28%
Disagree	42%
Don't know	3%
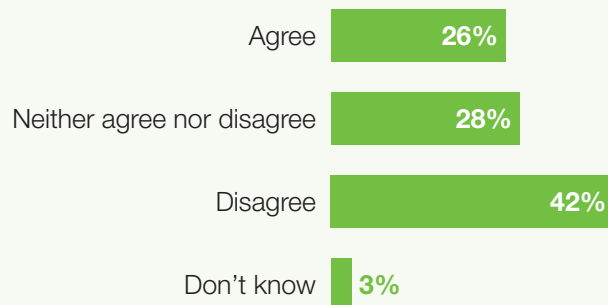
Base: 5,079

Why do you not currently save money?

Reason	Percentage
Don't have spare money to save	47%
Can't afford to	15%
Due to the cost of living/bills/rent/mortgage	6%
No income (not specified further)	4%
Not enough/no regular income	3%
Don't earn enough	3%
Don't want to/no need	3%
I am a student	2%
Living on my pension	2%
Living on benefits	1%
Due to paying outstanding credit card repayments/debt	1%
Prefer to spend/buy goods with it	1%
My age	1%
Other	4%

Base: 711 (all those who do not save)

Appendix 2

MINDSPACE

Policies that change the context or 'nudge' people in particular directions have captured the imagination of policymakers at the same time as the limitations of traditional approaches have become apparent. Popularised in Thaler and Sunstein's (2008) book *Nudge*, the theory underpinning many of the policy suggestions are built on decades of research in the behavioural sciences, and particularly behavioural economics, by academics such as Amos Tversky and the Nobel Laureate Daniel Kahneman (Kahneman, 2003 and Kahneman & Tversky, 2000). A recent Public Health White Paper (Department of Health, 2010) stated that the government will explore 'nudging people in the right direction rather than banning or significantly restricting their choices' and that 'there is significant scope to use approaches that harness the latest techniques of behavioural science' to enable people to make healthier choices (Bonell et al, 2011).

MINDSPACE: Influencing behaviour through public policy (Dolan et al, 2010) was published in March 2010 as a joint report by the Cabinet Office and the Institute for Government. *Mindspace* (Cabinet Office, 2010) is being used widely across government, informing key recent reports on health. Mindspace is a summary categorisation of a body of (largely contextual) effects on behaviour that have been found in experimental settings in the lab and in the field.

Mindspace is a mnemonic that reflects our attempts to gather up the most robust effects on behaviour that operate largely, though certainly not exclusively, through the automatic neurobiological systems and psychological processes. Mindspace elements – **M**essenger, **I**ncentives, **N**orms, **D**efaults, **S**alience, **P**riming, **A**ffect, **C**ommitment and **E**go – all have good evidence supporting their use as behaviour change techniques. Policy makers and health practitioners are attempting to influence behaviour and they are aware of these effects and understand how they can be used. Financial capability programmes can also make use of this framework to ensure resources are prioritised around what is likely to drive sustainable positive change.

Table 2: The MINDSPACE framework for behaviour change

MINDSPACE cue	Behaviour
Messenger	we are heavily influenced by who communicates information to us
Incentives	our responses to incentives are shaped by predictable mental shortcuts such as 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 sub-conscious cues
Affect	our emotional associations can powerfully shape our actions
Commitments	we seek to be consistent with our public promises, and reciprocate acts
Ego	we act in ways that make us feel better about ourselves

Lessons from health interventions

Messenger

Effective communication is an integral part of health promotion strategies and messages are more likely to create an impact if they use a credible source for the population being targeted (Glik, 2007). A meta-analysis (Durantini, 2006) of 166 HIV-prevention interventions found expert interventionists produced greater behaviour change than non-experts and the demographic and behavioural similarity between the interventionalist and recipients facilitated behaviour change. In the same analysis, it also appears that disempowered populations are more sensitive to the characteristics of the information giver.

Incentives

It is known that we strongly prefer avoiding losses more than we like gains of the same amount – a tendency known as loss aversion (Kahneman and Tversky 1979), which is triggered by automatic fear responses in the brain (De Martino et al, 2006). A randomised trial of incentives for encouraging weight loss by Volpp et al (2008) found they could be effective – at least in the short term – when people risked losing money, in contrast to a previous systematic review by Paul-Ebhohimhen et al (2008) that found little effect on weight loss by offering a standard financial incentive.

Norms

Research by Deutsch and Gerard (1955) distinguishes two main forms of social influence: informational (telling people what is commonly done) and normative social influence (informing them what is widely approved). Conformity with local social norms has been seen to be a powerful driver of preventative behaviours – and have been shown to be effective in interventions encouraging hygiene behaviours (Curtis et al, 2009), healthy food choice (Burger et al, 2010), physical exercise (Burger and Shelton, 2011), and alcohol misuse (Perkins and Craig, 2006).

Defaults

Defaults are the options that are preselected if an individual does not make an active choice. This is because losing the default might loom larger than gaining the alternative option, Powerful effects of defaults on behaviour have also been observed in organ donation decisions (Johnson and Goldstein 2003) and employees' contributions to healthcare flexible-spending accounts (Schweitzer et al, 1996).

Salience

As we have limited perceptual and cognitive resources, our choices tend to be affected by anything that falls within the focus of our limited attention span (Kahneman and Thaler, 2006). This is applied by Dupas (2011) in a field intervention testing carried out on whether information on HIV risk can change sexual behaviour among teenagers in Kenya. Providing information about a single criterion – the relative risk of HIV infection by partner's age group – led to a 28% decrease in teen pregnancy and 61% decrease in the incidence of pregnancies with older, riskier partners. In contrast, there was no significant decrease in teen pregnancy after the introduction of the very costly national HIV education curriculum, which provided general information about the risk of HIV and did not focus the message on the risk distribution in the population.

Priming

An individual's behaviour can be altered if they are first exposed to certain environmental influences like words, sights and smells. Research by Wryobeck and Chen (2003) showed that exposing people to words such as fit, lean, active, and athletic, makes them more likely to use stairs instead of elevators. Interventions that alter subtle cues in eating situations have been shown to control eating habits. In particular, the amount of food and drink that people serve and consume decreases when smaller sized plates, spoons, and glasses are used. Wansink and Cheney (2005) showed that smaller plates lead to lesser food intake, because people habitually consume around 92% of what they serve themselves, i.e. habitual control of food intake is cued by the amount of food on a plate.

Affect

Affect is often used in interventions directly targeting primary rewards to motivate innate actions. For example, feelings of disgust have powerful effects on behaviour, as shown in the context of promoting hygiene behaviours around African countries (Curtis et al, 2007). When Ghanaians feel their hands are dirty (e.g. after cooking or travelling) they feel a sense of disgust and wash their hands with soap. However, after toilet use, only 3% mothers in Ghana wash their hands with soap. With this in mind, Curtis et al. designed the intervention campaign, television commercials, to focus on provoking disgust rather than promoting soap use. For example, soapy hand washing was shown only for 4 seconds in one 55-second video clip, but there was a clear message that toilet prompts worries of contamination and disgust. This campaign resulted in a 13% increase in the use of soap after the toilet and 41% increase in reported soap use before eating.

Commitment

People wishing to stop smoking or exercise more have long used commitment devices and there is good evidence of their effectiveness. In randomised controlled trials Williams et al (2006) showed that African American women signing a behavioural contract, were significantly more likely to reach their exercise goals than a control group where no commitment was made.

Ego

Ego techniques highlight the self-image cost of undesired behaviours. Studies, for example those by Mahler et al (2003), show that messages outlining the negative effects of sun exposure on physical appearance have more impact on intentions to engage in protective behaviour than messages outlining health consequences. Similar research by Gibbons et al (2005) showed that UV photos of skin appearance reduces harmful UV exposure from tanning booth use.

Appendix 3

Technical notes

This technical note explains the methodology of the financial capability tracking study conducted by Ipsos MORI on behalf of the Money Advice Service. This note includes detail on the tracking study with UK adults.

Chosen research method

The Money Advice Service desired a statistically robust, cost effective survey returning a large sample to allow for analysis by a significant number of different subgroups, notably for adults and young people. The final method chosen was a dual mode using online and face-to-face methods.

Interviews were to be conducted using an online method for the following reasons:

■ The survey length needed to be long and online methods are more comfortable for the respondents

■ This method allows images and multimedia objects to be used

■ The interviewer effect, whereby the respondent is uncomfortable revealing personal information to an interviewer, is removed

■ Online surveys are a very cost effective way of conducting many interviews

However, on reflection it was also clear that an online-only approach would introduce potential bias into the survey as those without online access are likely to be different in some way to those who are online. The Money Advice Service also wished to test the hypothesis that online access to financial resources and advice on the internet has an effect on financial capability.

A face-to-face method was therefore chosen to reach those without internet access because it is the mode that most closely replicates an online survey as it still allows for the use of stimulus materials through the use of showcards and/or on-screen imagery.

Ad hoc face-to-face methods can be extremely expensive, especially in cases where the research audience is a small subset of the population.

Ipsos MORI note that a mode effect still exists between the online and face-to-face survey modes. For example, the presence of an interviewer during a CAPI (Computer Aided Personal Interviewing) interview can introduce some non response bias where respondents do not wish to divulge private information. The sampling method on face-to-face work is also reliant on geographical clustering which introduces some location bias. This can, however, be corrected with weighting the final data set.

Sampling frame

The Ipsos MORI online panel was used to access large numbers of the adult online population, 4,000 in total for the first wave. A wide range of demographic data is also available for the panel respondents which allows for complex subgroup analysis. The face-to-face element of the project was conducted by screening for the target population based on their self-reported access to the internet. We interviewed 1,079 in the first wave.

Questionnaire development

Phase 1

The final questionnaire used in Wave 1 was developed through a three stage process – phase one was a review of previous surveys and publications on financial capability, principally the FSA 2006 baseline survey, *Levels of Financial Capability in the UK: Results of a baseline survey, 2006*. Of the 21 significant questions from the 2006 baseline 11 questions were taken forward in some form because they were considered strong indicators of capability. They have been remodelled for an online survey and updated to reflect changes in technology society over the past seven years. Insight from the Money Lives ethnographic study was also used in the development of new questions based attitudes and behaviours.

Key stakeholders such as the Personal Finance Education Group and academics working on the ethnographic study were also consulted for advice on the survey design.

Phase 2

The next stage of questionnaire development was a cognitive testing phase.

Cognitive testing works on the basis that, for a respondent to give an optimal survey answer, they should go through a four-stage process in which they:

a. Interpret questions and wording
b. Retrieve information from memory relating to the question
c. Make decisions about how to answer
d. Give an answer

The purpose of the testing is to find out how respondents think at each of these stages leading to a better survey design as problems with cognition are identified. Practically, cognitive interviews are structured by asking individuals to complete a questionnaire whilst the moderator observes and notes reactions to specific questions, then goes through the survey and asks the participant what they were thinking of as they answered.

As a result of the cognitive testing we made the following changes to the early questionnaire:

■ Changed the style of some of the questions – association loops (where respondents were asked to choose words that they thought of in association with different things about finances) were changed to rapid-fire bilateral questions to measure intuitive financial attitudes and behaviours. Respondents got the hang of these much more quickly and with less desire to have alternative response options

■ Making statements more realistic (for example removing a reference to haggling over the price of an item as this is uncommon in the UK)

■ Simplifying everyday wording (e.g. referring to banks rather than financial institutions)

■ Ensuring that questions from the FSA baseline were up to date for 2013 (e.g. adding reference to online and mobile banking)

■ Avoiding leading questions (e.g. not asking about paying off an outstanding balance, asking about paying amounts off a credit card)

■ Highlighted questions where response options needed to be added

■ Interspersing the 'money quiz' questions throughout the questionnaire rather than having them as a block section which was found to be off-putting to some respondents

Phase 3

Phase 3 was a larger scale pilot which took place in both online and face-to-face modes. This allowed us to test the setup of the survey, assess the look and feel of the survey and see how respondents might react to particular questions.

The pilot was undertaken with 200 online adults. The pilot questionnaire was longer than the desired length at this stage but testing allowed us to see which questions were not working well as measures of financial capability, e.g. because they were being answered very homogenously, or had low response rates (e.g. lots of 'don't know'). These were then removed for the main-stage.

At this stage we also introduced specific questions measuring the Money Advice Service outcomes. We also left a number of questions open-ended, so that we could code responses to come up with a pre-code list for the main stage of the research. The pilot also indicated that our 'rapid fire' attitudinal questions would work well as an additional lens by using speed of response to capture intuitive attitudinal and behavioural responses to a number of circumstantial and attitudinal questions about personal finances.

At this stage we also included demographic questions to ensure we could conduct robust sub-group analysis and weight the data to be representative of the UK population. Key measures included age, gender, region, level of internet usage, parental status, relationship status, housing tenure, income, social grade, education etc.

As prior Money Advice Service research (such as Money Lives) shows access to networks has an effect on financial capability, the research design should allow for analysis by location. Postcode data was therefore collected as part of the survey to allow for geographical analysis. This also has the added advantage of being able to attach segmentation data (such as Experian FSS data) to individual respondents and their households.

Achieved sample and statistical considerations

The following table includes information about effective base sizes for a number of key demographic groups that took part in the survey. The sample was weighted on age, gender, region and internet usage (a proxy for this was mode of completion) to UK national profiles.

Note that standard errors cannot be calculated for a quota survey (unlike a random probability design). This is because there are assumptions that are made about the final quota sample which do not satisfy the statistical criteria from which an error margin is calculated. What this means in practice is that quotas samples are *treated* as though they were randomly drawn for the purpose of calculations of standard error. Statistical interpretations of quota survey should recognise that measures of statistical significance are based on assumptions and not on a known selection probability.

With that in mind, Table 3 overleaf highlights the margins of error associated with the survey as a whole and sub-groups. Confidence intervals are all based on the 95% confidence level. The design effect of the survey as a whole was calculated at 1.22 which simply means the effect of the survey weighting reduced the achieved total sample size to 4,156 from 5,079 interviews. This has negligible consequences for overall sample confidence.

Table 3: Confidence intervals for the survey and sub groups at the 95% confidence level

Total and sub-groups	Frequency		Confidence intervals		
	Unweighted	Weighted	50%	70% / 30%	90% / 10%
Gender					
Male	2,476	2,497	±2%	±2%	±1%
Female	2,603	2,582	±2%	±2%	±1%
Age					
18-24	568	1,154	±4%	±4%	±3%
25-34	767	760	±4%	±3%	±2%
35-44	866	791	±3%	±3%	±2%
45-54	853	778	±3%	±3%	±2%
55+	2,025	1,595	±2%	±2%	±1%
Internet use					
F2F	1,079	1,117	±3%	±3%	±2%
Online	4,000	3,962	±2%	±1%	±1%
Region					
NE	235	209	±6%	±6%	±4%
NW	622	567	±4%	±4%	±2%
Yorks & Hum	406	425	±5%	±5%	±3%
E Mids	418	364	±5%	±4%	±3%
W Mids	429	450	±5%	±4%	±3%
E Anglia	406	470	±5%	±5%	±3%
London	620	657	±4%	±4%	±2%
SW	441	694	±5%	±4%	±3%
SE	705	425	±4%	±4%	±2%
Nation					
Wales	257	246	±6%	±6%	±4%
Scot	468	426	±5%	±4%	±3%
NI	72	146	±12%	±11%	±7%
Total	5,079	5,079	±2%	±1%	±1%

The Money Advice Service will work with its research partner to increase the base size for Northern Ireland in the next waves of the financial capability tracker.

Analysis of survey data – within one wave

Topline results were produced in marked up questionnaires to aid early analysis. Survey responses were tabulated in smart excel and produced in SPSS to facilitate more in-depth analysis by a number of key demographics such as age, region, income, parental and relationship status, benefits status, housing tenure etc.

Basic frequency tables were generated to allow analysis of key outcome questions at the whole population level, and the tables were generated with cross breaks on key demographics to facilitate subgroup analysis. Statistically significant differences (noting the caveats of a quota survey approach mentioned earlier) between groups, and between groups and the average were highlighted in the tables to aid understanding of the size of differences between respondent types.

Cluster Analysis
Objective

The analysis aims to group customers according to their attitudes towards money-related matters.

To achieve this, cluster analysis was performed, which is a statistical technique that identifies key groups of respondents, separating them into groups based on the similarity of their answers to target questions.

The main advantage of using this technique is that it can take a large number of influencing factors into account and look at these simultaneously.

Input selection

A set of respondents could potentially be grouped in a multitude of different ways.

Therefore, our process seeks to identify the critical dimensions and to exclude those that are not important or do not differentiate the clusters effectively:

■ In order to achieve clusters that are fit for purpose it is essential to pick the right questions that allow the groups to be differentiated on what is relevant for the final goal

■ The questions used as input for the analysis need to have a good granularity of responses, so rating-scale questions are preferred over binary (yes/no) or categorical ones (i.e. where there is no natural ordering of the responses)

■ For the analysis to be accurate, the inputs need to be questions asked of all respondents. Therefore filtered questions have been excluded from the analysis

Factor analysis

However, the results can be lost in the details if there are too many variables that interfere with each other, for this reason we have performed factor analysis first, to reduce the number of dimensions used as inputs for the cluster analysis.

Factor analysis is a statistical technique that examines whether a large number of different statements can be simplified into a smaller number of core themes. It helps us to understand the basic structure and relationships in the data looking for similar patterns in the way questions are answered.

As shown in the table at the end of this section, factor analysis has grouped the questions above into four main themes:

■ Money management

■ Saving for the future

■ Risk taking

■ Credit commitments (single question)

Cluster analysis

Our standard approach to segmentation is a multistep process that focuses on the identification and inclusion of the critical segmentation variables, and the identification of the optimal cluster number through an iterative approach.

There are two main clustering methods, hierarchical and non-hierarchical (centre-based), which both present strengths and weaknesses. In order to overcome the limits of both methods and provide robust and stable results, the Ipsos MORI approach is to use a combination of both:

■ Hierarchical Clustering (Ward's Method)
  – Identifies the basic segment structure for characterisation
  – Helps to identify the optimum number of clusters

■ Non-Hierarchical Clustering (K-means method)
  – Refines the initial clustering, improving similarity within clusters and differentiation between them

The clusters that are formed are clear, distinct groups: the differences between people within a group are minimised, and the differences between people in different groups maximised.

Profiling

The profiles of the clusters are given in the following table. The table has one row showing the cluster sizes and one row for each statements used in the factor and cluster analysis.

There are two sets of columns for each cluster:

■ Actual data columns (i.e. the mean response values for the statements)

■ Indices. These show the value for the cluster relative to the value for the whole sample as a ratio (multiplied by 100). Indices are greater than 100 where the cluster value is higher than average and less than 100 where values are lower than average

Highlighted in yellow are the indices lower than 80 and highlighted in green are the indices higher than 120.

The scales are such that, in all cases, higher values are associated with greater satisfaction or stronger agreement with the statements.

Extrapolation of data

Where this report states estimated numbers of the UK population (e.g. 18 million people), this has been derived from extrapolating the proportion of people in the population answering in a certain way to estimated total number of people. The population estimate used is 49,451,024 UK adults, which is comprised of the latest 2013 population estimates from ONS, GRO and NISRA covering England, Wales, Scotland and Northern Ireland.

For example, if the research shows that 33% of respondents answered in a certain way, this can be extrapolated (0.33 x 49,451,024) to 16.3 million, or 16 million with rounding. When extrapolating data to match a population of nearly 50 million people, there will always be a margin of error to consider, hence why these are estimates.

The whole analysis was run on data weighted to the Nationally Representative distribution.

Table 4: 4-Cluster Profiling table

Variable	Cluster 1	Cluster 2	Cluster 3	Cluster 4		Cluster 1	Cluster 2	Cluster 3	Cluster 4
	Average values				Overall	Indices			
Base	*1,051*	*1,666*	*938*	*1,424*	*5,079*	*21*	*33*	*18*	*28*
Factor 1: Money Management	3.0	4.4	3.0	4.2	3.8	79	116	78	111
C1a I am very organised when it comes to managing my money day to day	3.0	4.4	3.1	4.1	3.8	80	115	82	109
C1b I am more of a saver than a spender	2.4	4.0	2.5	3.7	3.3	73	120	77	112
C1d I tend to buy things even when I can't really afford them	3.0	1.6	2.7	1.9	2.2	140	73	123	88
D1a I always make sure I have money saved for a rainy day	2.8	4.4	2.7	4.1	3.7	76	120	72	112
C15a And in the past 12 months, how often have you run out of money before the end of the week or month?	2.9	1.5	3.4	1.5	2.1	137	68	158	72
C15c And in the past 12 months, how often have you used an overdraft to pay for something because you did not have the money at the time?	2.3	1.3	2.5	1.3	1.7	136	74	143	75
Factor 2: Saving for the future	3.0	3.8	3.0	3.4	3.4	88	113	89	101
D1e I always begin saving well in advance for Christmas	2.8	3.8	2.8	3.3	3.2	86	116	86	101
F1a Pensions are the best way to save for retirement	3.3	3.8	3.4	3.6	3.6	92	108	94	100
F1c It is important to have some money saved in case my life changes dramatically	3.5	4.5	3.8	4.1	4.0	88	111	93	100
F1e I have a plan for how to pay for the care I will need in my old age	2.3	3.2	2.2	2.8	2.7	84	118	81	103
Factor 3: Risk taking	2.7	1.7	2.9	3.0	2.5	109	69	113	121
E17c Paying for life insurance is not necessary	2.7	2.1	2.8	3.4	2.7	100	78	103	124
E17g I accept the risks and choose not to pay for home contents insurance	2.3	1.3	2.5	2.7	2.1	108	60	120	127
F1b I prefer to live for today than plan for tomorrow	3.2	1.8	3.2	3.0	2.7	119	67	119	112
Factor 4: Credit commitments (single question)									
1 I am/we are keeping up with all bills and commitments without any difficulties	20%	60%	0%	55%	39%	50	153	0	140
2 I am/we are keeping up with all bills and commitments, but it is a struggle from time to time	63%	28%	0%	30%	31%	205	91	0	99
3 I am/we are keeping up with all bills and commitments, but it is a constant struggle	0%	5%	68%	2%	15%	0	37	459	12
4 I am/we are falling behind with some bills or credit commitments	0%	0%	22%	0%	4%	0	0	541	0
5 I am/we are having real financial problems and have fallen behind with many bills or credit commitments	0%	0%	10%	0%	2%	0	0	541	0
6 I/we don't have any bills or credit commitments	4%	3%	0%	6%	4%	120	97	0	155

Appendix 4

Authors and contributors

In addition to colleagues at the Money Advice Service, the following individuals and organisations have contributed to this report.

Dr. Ivo Vlaev

Ivo Vlaev is a Senior Lecturer in behavioural sciences at Imperial College, London. Ivo has led extensive investigations of human judgement and decision-making. Ivo received a DPhil (PhD) in Experimental Psychology from the University of Oxford (and St. John's College) and MSc in Cognitive Science and BSc in Psychology from the New Bulgarian University. Ivo has a track record of research in cognitive science and behavioural economics, which is published in peer-reviewed academic journals, book chapters and government reports.

Antony Elliott

Antony Elliott FCIB is chief executive of The Fairbanking Foundation. He spent over ten years as Group Risk Director of a major retail bank having worked for a number of UK and international banks previously.

He has been actively involved in researching the field of financial well-being since 2004 and has a large number of published reports in the area. His research includes the Centre for the Study of Financial Innovation report, "Fair banking – the road to redemption for UK banks" (2009) and he was lead author for the Money Advice Service report, "Transforming Financial Behaviour" (2010), examining the role of behavioural economics in improving financial capability.

He founded the Fairbanking Foundation in 2008, which conducts research, provides advice and is a certification body for the Fairbanking Mark.

Antony has a degree in Banking and International Finance from City University and a masters degree in Operational Research from Imperial College, London.

Ipsos MORI

Ipsos MORI is a leading UK research company with global reach. The organisation is responsible for delivery of the Money Lives and Financial Capability tracker research.

Money Advice Service

The Money Advice Service is an independent organisation. It gives free, unbiased money advice online at moneyadviceservice.org.uk, over the phone on 0300 500 5000, and face-to-face right across the UK. The Service was set up by Government and is paid for by a statutory levy on the financial services industry, raised through the Financial Conduct Authority. Its statutory objectives are to enhance the understanding and knowledge of members of the public about financial matters (including the UK financial system); and to enhance the ability of members of the public to manage their own financial affairs. The Service has an independent Chairman and board appointed by the Financial Conduct Authority.

Appendix 5

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