Financial Capability Strategy for the UK

Monitoring and evaluating progress across the UK

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Summary

This is your opportunity to influence how progress in delivering the Financial Capability Strategy for the UK is measured:

- Do you agree with the proposed approach for monitoring progress against the Strategy's aims?
- In particular, do you agree with the proposals for measuring financial capability, behaviour and wellbeing within the UK population?
- Do you have any suggestions for improvements?

The new Financial Capability Strategy for the UK will comprise a clear and measurable programme of work for raising financial capability over the next 10 years. If the Strategy is successful in improving financial capability, the potential, expected and desirable consequence will be an overall increase in the UK's financial wellbeing. This paper describes the approach to monitoring the impact of the Strategy.

The Financial Capability Framework (see Figure 1) will form the basis of the monitoring approach, which will cover inputs, outputs and outcomes. Table 1 sets out a high-level summary of the monitoring plans, including the areas being monitored, likely primary data sources that will be used, and the timing of the research phases. Work will be undertaken in 2015 to establish a baseline. The results from this monitoring activity will be publicly reported.

Table 1: Summary of monitoring plans

Monitoring area	Primary data source[1]	Timing
Outcomes		
> Adult financial capability, financial behaviour and financial wellbeing	Financial Capability Adult Survey	**Baseline:** 2015 **Midway progress update:** 2020 **Final follow-up:** 2025[2]
> Child and young people financial capability and financial behaviour, and parental attitudes and behaviour around their children and money	Possibly through a new Financial Capability Family Survey[3] (or suitable alternative)	As above
Outputs		
> Successful delivery and implementation of the UK Strategy recommendations	N/A	**Annual progress update until 2025**
> Engagement of financial capability providers and funders in robust evaluation activity and evidence-based decision making	Survey of UK financial capability providers and funders	**Baseline:** 2015 **Midway progress update:** 2020 **Final follow-up:** 2025
Inputs		
> The scale and nature of financial capability activity taking place across the UK, including the profile of clients being helped	Survey of UK financial capability providers and funders	**Baseline:** 2015 **Midway progress update:** 2020 **Final follow-up:** 2025

1. Other, secondary data sources may be used to provide supplementary and contextual evidence. See 'Data sources' on page 9 for further details.
2. The adult Financial Capability Survey is currently conducted annually and therefore some of the indicators of financial capability and wellbeing are likely to be measured (and the results published) on an annual basis. However, given the timescales over which it is realistic to expect to see sustained positive change in the UK's financial capability at the national level, this data will not be analysed and published as part of a formal assessment of progress against the Strategy's objectives until the milestones in the table have been reached.
3. This would be the element of the suite of financial capability surveys that focuses on parental and child financial capability and behaviour. However, it is possible that another research vehicle, for example the Understanding Society longitudinal survey, might be used to track progress among children, young people and their parents instead.

The importance and challenges of evaluating the Strategy

Evaluation and monitoring will be integral to the successful implementation of the Strategy and to achieving the vision of a more financially capable UK. It is proposed that the Money Advice Service will lead on monitoring and evaluation activity around the Strategy. This will involve conducting research to measure progress in relation to the UK population's levels of financial capability, financial behaviour and financial wellbeing, as well as monitoring the implementation of the Strategy, over the course of the ten-year Strategy period.

Financial capability, behaviour and wellbeing are complex social concepts.[4] Each is influenced by a variety of factors, including the economic context, overarching government policies such as welfare and pension reform, and developments in the financial services industry. It will therefore be challenging to isolate the impact that the Strategy has had on people's financial situation.[5] It is nonetheless vital that monitoring and evaluation is undertaken to:

- measure the extent of progress that has been made towards developing a more financially capable UK;
- identify areas and population groups where further activity is needed; and
- provide accountability.

The following proposals have been developed with the expert input of members of the Money Advice Service's Research and Evaluation Group (REG).[6] Their advice and guidance has been invaluable in the development of these proposals.

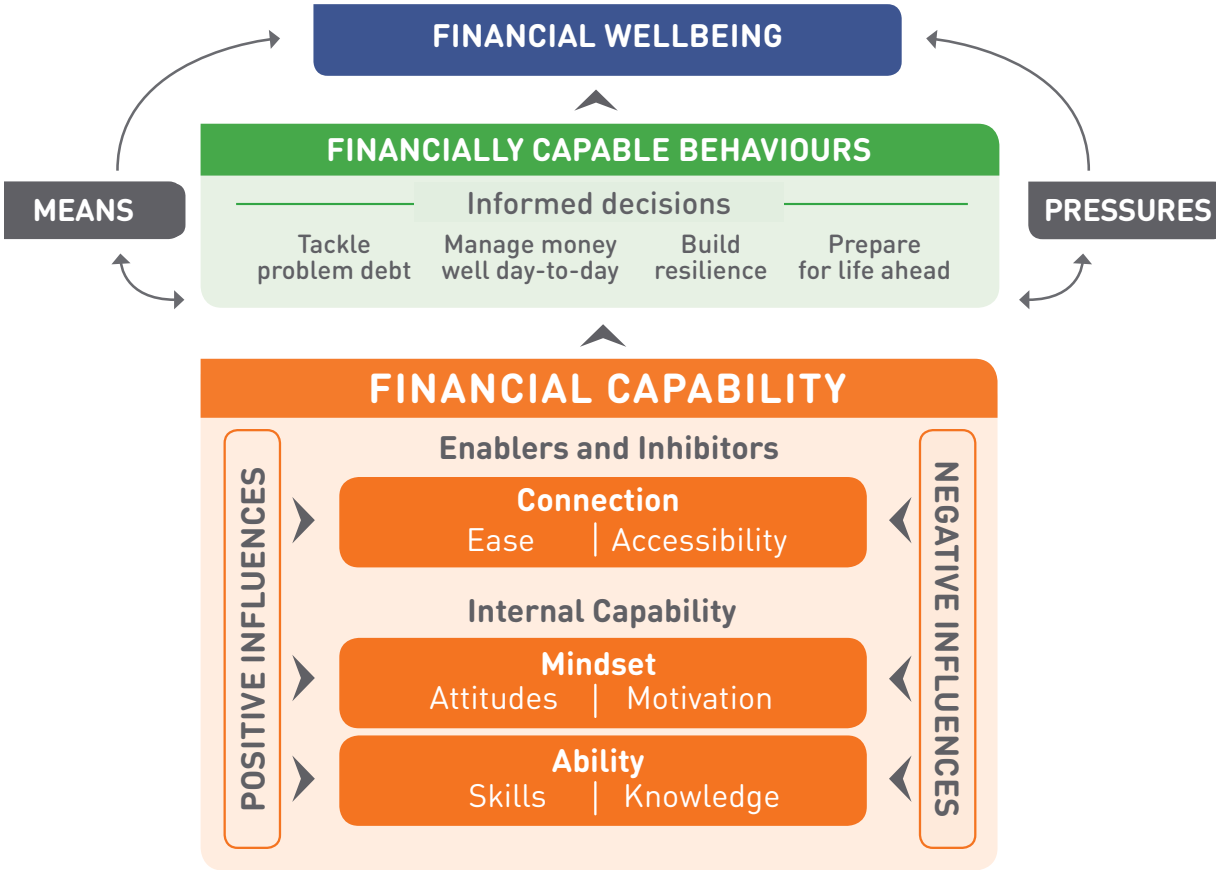
4. Please note that in this document, the use of the terms 'behaviour' and 'wellbeing' always refer to financial behaviour and financial wellbeing unless otherwise specified.
5. This is due to the lack of a counterfactual scenario against which to compare progress towards the Strategy's aim. For an acknowledgement of the inherent challenges involved in trying to evaluate the impact of national financial capability strategies see: FSA (2008) *Financial Capability: A behavioural economics perspective:* http://www.fca.org.uk/static/fca/documents/research/fsa-crpr69.pdf
6. Members include prominent research and evaluation experts from across academia, the financial services sector, market research and the third sector.

Tracking progress within the UK adult population

The financial capability framework

The financial capability framework (Figure 1) will form the basis of the approach to establishing a baseline and tracking levels of financial capability, financial behaviour and financial wellbeing across the UK adult population.[7] The framework and its key components are described in more detail in the main Strategy consultation document and the 'Financial capability outcome frameworks' report.[8]

Figure 1: Financial Capability Framework



The aim is to identify robust indicators covering each dimension of these three main elements of people's financial experience to enable measurement at the population level. The indicators will be tracked over time within particular groups of interest, including young people (aged 18-24); working-age people; those nearing retirement; and older people (aged 65 or over). Geographic trends (including those at the devolved nation and regional level), and trends along other demographic lines (such as gender, education and income level), will also be explored as far as the data will robustly allow.[9]

7. The resulting (anonymised) data will be available on the UK Strategy evidence and evaluation hub. This will allow organisations to explore findings relating to their specific region or target group, as well as the general population.
8. Financial Capability Strategy for the UK/NPC (2014) *Financial capability outcome frameworks*
9. Along with the standard demographics, the characteristics shown by the forthcoming PFRC secondary analysis of the Money Advice Service UK Financial Capability Tracker Survey data to be predictive of levels of financial capability - including employment status and housing tenure - will also be monitored. Money Advice Service/PFRC (forthcoming) *Understanding the profile of those most at risk of detriment due to low financial capability*

Measuring financial capability

The main focus of the monitoring activity will be on the underlying components of financial capability. These are:

- mindset (attitudes and motivation);
- ability (skills and knowledge);
- connection (accessibility and ease of use of financial products and services); and
- social influences.

As the driver of financial behaviour and wellbeing, financial capability is where the most immediate impact can be expected from the Strategy.[10]

In addition to indicators for the various components of financial capability, the scope for developing a meaningful index or composite measure will be explored in order to facilitate the comparison of overall levels of financial capability over time.[11]

Financially capable behaviour and financial wellbeing

The focus of the Strategy is improving people's financial capability in order to increase their financial wellbeing. Changes in the financial behaviour and wellbeing of the UK adult population will therefore be measured as part of the Strategy evaluation and monitoring approach.

In interpreting the resulting data it will be important to remember that – as the financial capability framework demonstrates – financial capability is one of multiple factors which affect a person's financial behaviour and wellbeing. The financial means a person has at their disposal and the financial pressures they face can either enable or limit their financial wellbeing. Means and pressures are affected by the macro-economic climate as well as relevant public policies (for example, those around the welfare system or employment). Public policies such as automatic enrolment into a workplace pension can also affect financial behaviours.

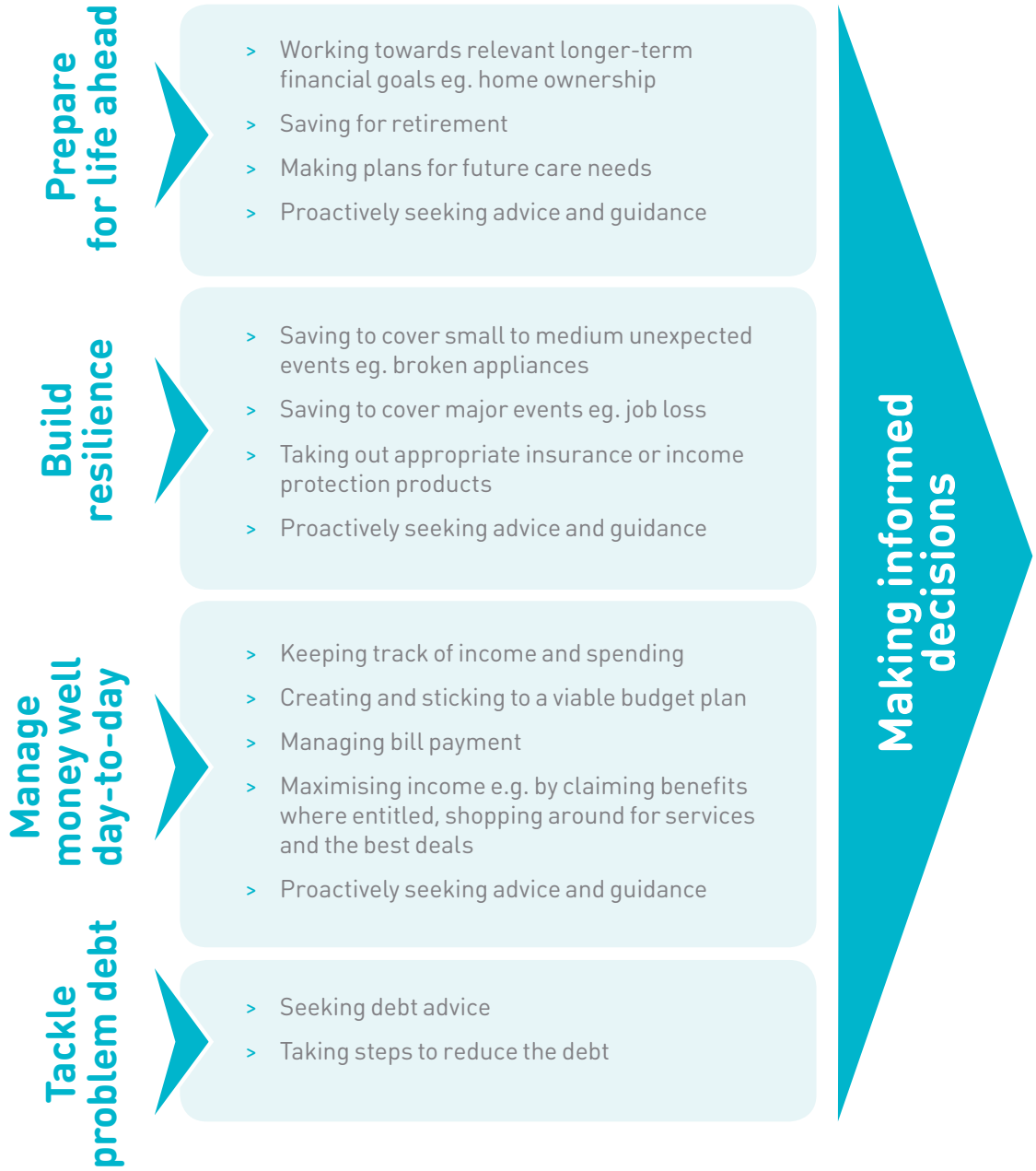
These contextual factors must be taken into account when interpreting the data. Increases in financial capability would be expected to translate into positive financial behaviours and increased financial wellbeing over the longer term, although more research is needed to understand the length of time over which any changes could realistically be expected to become visible in the general population.

10. However, it may be the case that clear and sustained improvements in the financial capability of the UK population only become observable in the data towards the middle or even end of the ten-year Strategy period.
11. Composite measures combine a number of different indicators into a single one.

Measuring financially capable behaviour

Financial behaviours will be measured across four core domains. Indicators of behaviour within these four domains are in the process of being developed. Initial proposed indicators are shown in Figure 2 below.[12] Some of the final indicators may vary depending on the life stage of the individual in question, or whether they have recently experienced a life event.

Figure 2: Domains and proposed indicators of adult financially capable behaviour



12. 'Making informed decisions' cuts across the other domains, and is therefore not considered a separate domain in and of itself.

Measuring financial wellbeing

Work will be undertaken over the next few months to establish a range of indicators to measure people's financial wellbeing. It is likely that these will involve objective measures, such as a person's level of savings and ability to pay bills on time, and subjective measures, such as how frequently they worry about money and how positive they feel about their current and future financial situation.

Tracking progress amongst children and young people (3-17)

Financial capability and financial behaviour

As with the adult population, it will also be important to monitor levels of financial capability and behaviour amongst children and young people aged between three and 17. The indicators of financial capability and financially capable behaviour that will be used for this group will be age/developmental stage appropriate. These indicators will reflect the building blocks that evidence suggests are needed to enable children and young people to develop into financially capable adults. More information on age-appropriate indicators of financial capability and behaviour can be found in the 'Financial capability outcome frameworks' report.[13]

The financial wellbeing indicators are unlikely to be directly applicable to young people who are not yet financially independent. They are therefore not being proposed as measures of progress amongst the under 18 population.

Parental attitudes and behaviour concerning their children and money

Given the importance of parental behaviour in shaping the financial attitudes and habits of their children, and the focus in the Strategy on working with parents to improve their children's financial capability, key indicators of positive parental attitudes and behaviours concerning their children and money may also be used as a measure of progress. Examples of these behaviours include parents talking openly about money with their children, and allowing them to have an age-appropriate degree of responsibility over their own finances.

13. Financial Capability Strategy for the UK/NPC (2014) *Financial capability outcome frameworks*

Additional supporting measures

In addition to the above measures focusing on progress within the UK population, the Strategy will also be monitored in relation to:

- the delivery and implementation of the UK Strategy recommendations;
- the use of evidence and degree of high-quality evaluation taking place within the financial capability sector; and
- the scale and nature of financial capability activity taking place across the UK, including the profile of clients being helped.

Data sources

Progress in these areas will be predominantly monitored through a series of large-scale, representative surveys of both the UK population, and the financial capability provider and funder base. The Money Advice Service will lead on the co-ordination and delivery of this primary monitoring activity, the main research vehicle being their nationally representative UK Financial Capability Survey of the adult population.[14]

This survey data will be supplemented by contextual and supporting evidence from other, secondary sources.[15]

14. Further quantitative or qualitative research may be required during the course of the Strategy to provide a better understanding of the situation of particular population groups, or the reasons why progress is or isn't being made against the objectives. If so, the research findings will be made publicly available so that they can further add to the collective evidence base around financial capability.

15. Secondary sources might include:
- large-scale Government and academic surveys such as the Wealth and Assets Survey, Family Resources Survey and Understanding Society, which contain some key measures of financial capability, behaviour and wellbeing;
- administrative data on the scale and profile of people facing serious financial problems, for example in relation to bankruptcies and house repossessions;
- data from partner organisations about specific target populations, for example children or retired people; and
- any other evidence required to monitor delivery and implementation of the Strategy asks for example relating to the activity of financial services institutions.

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