

Financial Capability in Scotland 2015

Initial results from the
2015 UK Financial Capability Survey

Acknowledgements

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Summary

This survey contains the largest number of interviews conducted to date in Scotland in research related to financial capability. Like its predecessors, it finds that there is much work to be done to improve financial capability. Most people are managing their money day to day. But far fewer are preparing financially for life events, such as income loss, bereavement or retirement.

Around four in ten adults in Scotland are not managing their money well day to day. Without the basics in place, preparing for and managing life events, and dealing with potential income shocks, is that much harder. In particular, if people are not keeping track day to day it is much harder to be thinking ahead.

Overall, only a quarter of the working-age population in Scotland have a savings buffer equivalent to three months' or more income and only just over half of families have life cover.

There is still a need to improve consumers' skills and knowledge, with some evidence of a decline in these in the last decade.

Confidence in managing money and selecting products is a barrier – especially among lower income groups, those with a greater reliance on benefits and also 'young adults'. There is also a need to work on developing more positive 'attitudes and motivations', with more than half of all adults having a mindset that focuses more on current needs and wants, at the expense of providing for the future.

All other things being equal, those with higher incomes, higher educational attainment and a higher social grade will fare better. In the case of income this is particularly true of 'preparing for and managing life events' and 'skills and knowledge'. However, the situation is more complex with financial capability driven by a combination of resources, skills and motivations.

Implications

Successful interventions will need to be precisely targeted at specific behaviours. In particular more work is needed to establish the feasibility of targeted interventions designed to boost savings by:

- encouraging non-savers to save by setting specific goals; and
- encouraging current goal-oriented savers to increase saving or continue after achieving a goal in order to build up emergency savings.

There is also a broader need to encourage better preparation for life events among most of the population. There could be some benefit to breaking this down into young adults, working-age people and older people in retirement. But even this might be too broad and given the importance of household composition, there may be a benefit from understanding and targeting middle incomes in the working-age population as a separate group.

The survey highlights specific issues among groups such as:

- young adults;
- recipients of benefits being replaced by Universal Credit, in particular unemployed people;
- older people in retirement aged 75+;
- social housing tenants; and
- private housing tenants.

Next steps

The results presented in this report are an initial view of the findings of the 2015 Survey. Between now and the next survey (scheduled for 2017) we will conduct and publish additional, more detailed analysis. This will include our proposed approach to tracking the overall progress of the UK Financial Capability Strategy.

Background, methodology and objectives

Background

The Scotland Financial Capability Strategy is owned and managed by the Scotland Forum, chaired by Money Advice Scotland and includes representation from a wide range of organisations. The Scotland Strategy and its action plans are being developed in consultation with a wide number of stakeholders across Scotland including the Scottish Government, local government, public bodies, the advice sector, housing associations, third sector organisations and financial services providers. It sets out how the Money Advice Service will work with the sector to improve financial capability across Scotland.

The Financial Capability Survey ('the survey') is a key part of the evidence base underpinning the development of the strategies for financial capability in Scotland and across the UK. The research measures the extent of financially capable behaviour among the public, and highlights particular groups in the population that score lower in terms of behaviours or Financial Capability Factors. It also examines the extent to which skills, knowledge, mindset ('attitudes and motivations'), connection ('ease and accessibility'), and other influences may act as barriers or enablers to financially capable behaviour.

The 2015 Survey contains the largest number of interviews in Scotland conducted to date in research related to financial capability.¹

This report is based on the **2015 Financial Capability Survey**. Where appropriate it makes comparisons with other surveys of Financial Capability including:

- 2014 UK Financial Capability Tracker;²
- 2013 UK Financial Capability Tracker;³
- 2010 OECD Financial Literacy and Education pilot study;⁴ and
- 2005 Baseline Survey of Financial Capability in the UK.⁵

When possible, Scotland figures are provided. When this is not possible, UK figures are used.

Methodology

The Financial Capability Survey is a nationally representative survey of adults aged 18+ living in the UK.⁶

This report is based on 1,101 interviews conducted in Scotland. These consist of:

- 321 interviews conducted as part of the core UK survey; and
- 780 additional 'booster' interviews conducted to provide a larger and more robust dataset for analysis of financial capability in Scotland.

The Scotland interviews were conducted by a mixture of online and face-to-face interviews:

- 803 online interviews (73%) to represent heavier internet users; and
- 298 face to face interviews (27%) lighter internet users and non-users

¹ The 2015 Survey is based on 1,101 Scotland interviews, compared with 836 in 2014, 468 in 2013 and 524 in the 2005 Baseline Survey.

² Conducted by Ipsos MORI for the Money Advice Service. Based on 9,309 interviews conducted online and face-to-face in four quarterly waves between 1 August 2013 and 12 May 2014. Data weighted by age, gender, region and internet use to be representative of the UK 18+ population.

³ Conducted by Ipsos MORI for the Money Advice Service. Based on 5,079 interviews conducted online and face-to-face between 5 April and 7 May 2013. Data weighted by age, gender, region and internet use to be representative of the UK 18+ population. Report published at <https://www.moneyadviceservice.org.uk/en/static/the-financial-capability-of-the-uk>

⁴ http://www.oecd-ilibrary.org/finance-and-investment/measuring-financial-literacy_5k9csfs90fr4-en

⁵ Conducted by BMRB for the Financial Services Authority. Based on 5,328 face-to-face interviews conducted 25 July 2005 to 18 September 2005. Data weighted within each UK nation by working status within region, sex, age and ethnicity to be representative of the UK 18+ population. Report published at http://www.fsa.gov.uk/pubs/other/fincap_baseline.pdf

⁶ Interviews were conducted with a UK nationally representative sample of 3,461 adults: this included 321 interviews with adults in Scotland, who were represented in their natural proportion. Additional boost interviews were conducted in each of the devolved nations (Scotland, Wales and Northern Ireland) in order to ensure a robust base for analysis. In addition, a boost sample of 18-24 year-olds was included to enable their separate analysis. In total, 5,603 UK respondents took part in this research.

In order to ensure that the findings accurately reflect the population they aim to represent, the data were weighted to known population estimates. The variables used for weighting were age, gender, region (at the all-UK level only), working status, internet usage and housing tenure. Housing tenure was substituted for social grade as a weighting variable after interrogation of the initial data and comparison with ONS and other data sources.

Some respondents did not supply details of household or personal incomes or savings. Missing values for these respondents were imputed based on answers provided at other questions. The imputation model used for this was based on a model used by the survey provider GfK on the GfK Financial Research Survey.

The survey also modelled an estimate of housing equity based on a detailed section of questions about owner-occupiers' mortgages (if any) and property characteristics.

The questionnaire for the survey was developed from previous waves of financial capability research, comparison with international surveys such as those run by the Organisation for Economic Co-operation and Development⁷ and the Australian Securities & Investments Commission⁸, specific qualitative research conducted for this survey,⁹ cognitive testing of the questions and quantitative piloting of some questions.

Please refer to the Technical Report for full details of the methodology, including sample design, weighting, imputation and the questionnaire development process.

The focus of this report is the findings specifically related to Scotland, though where relevant comparisons are made with the all-UK findings (labelled as 'UK Core' throughout this report). Some further statistical analyses were only conducted on the UK Core sample, but these are also shown in this report as they provide interesting insight on enablers and barriers to financially capable behaviour, and linkages between them.

Financial capability model

The survey is based on a model of financial capability that includes both behaviours and the factors that may enable or inhibit these behaviours. It can be defined as follows:

Financial capability is a person's ability to manage money well, both day to day and through significant life events, and to handle periods of financial difficulty.

It is driven by personal skills, knowledge, attitudes and motivations, and made possible by an inclusive financial system and supportive social environment. Financial capability helps people achieve the best possible financial wellbeing.¹⁰

Financially capable behaviours are the types of positive behaviour and actions that the Strategy aims to promote and measure. These behaviours can be grouped into those required for:

- managing money well day to day;
- preparing for and managing life events; and
- dealing with financial difficulties.

⁷ <http://www.oecd.org/daf/fin/financial-education/measuringfinancialliteracy.htm>

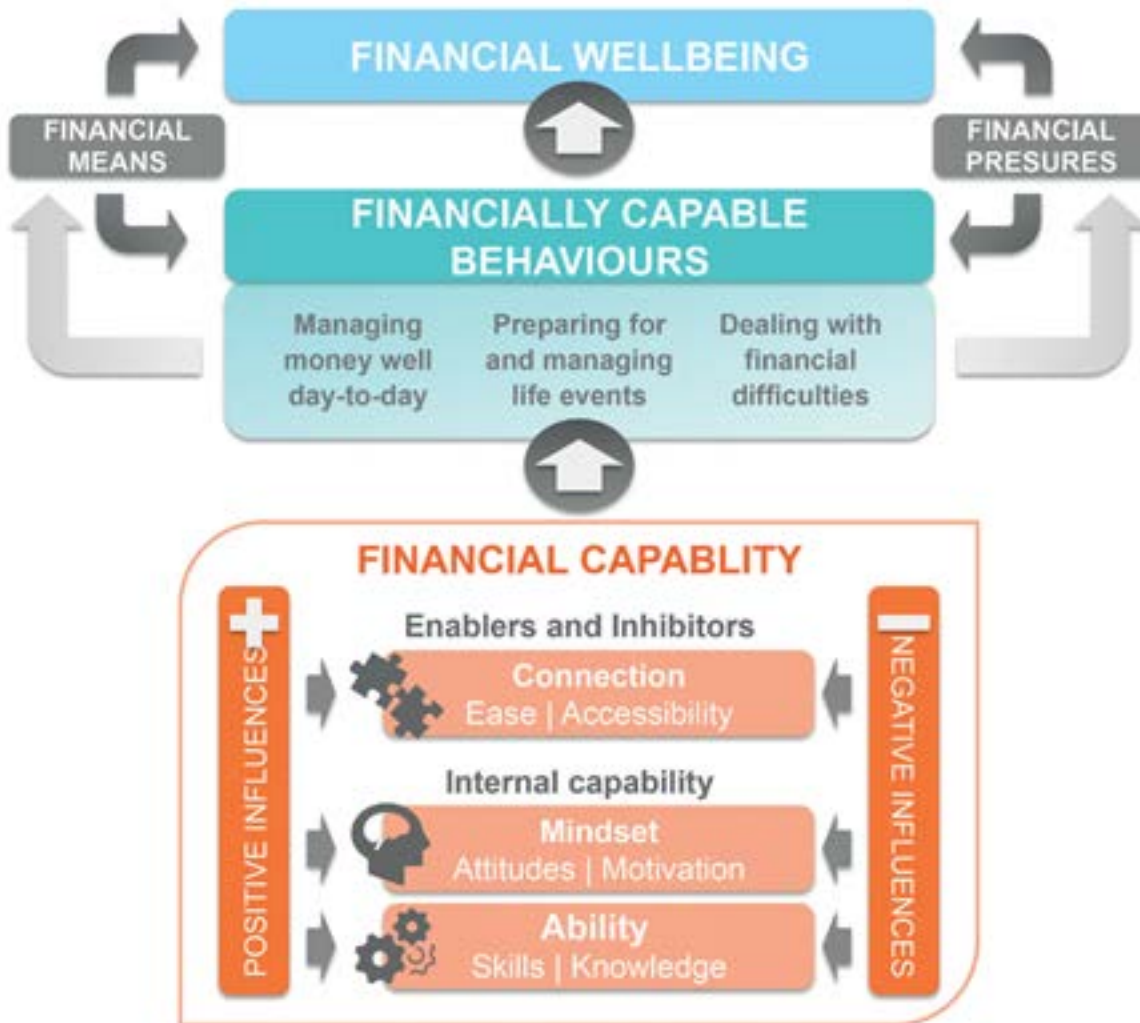
⁸ <http://asic.gov.au/regulatory-resources/find-a-document/reports/rep-419-australian-financial-attitudes-and-behaviour-tracker/>

⁹ Financial Capability and Wellbeing: A qualitative report (TNS BMRB / Money Advice Service, March 2015).

<http://comfy.moneyadviceservice.org.uk/system/comfy/cms/files/files/000/000/213/original/financial-capability-and-wellbeing.pdf>

¹⁰ Definition of financial capability from the Financial Capability Strategy for the UK The Consultation Response and Next Steps (March 2015). https://prismic-io.s3.amazonaws.com/finicap-two%2F7ac2f4a9-bf30-4da2-b191-3859eea9396c_uk_financial_capability_strategy_consultation_response_march2015_online.pdf

As the diagram shows, financial means and pressures also have an influence on financial well-being. Means and pressures largely consist of income and household composition, i.e. the numbers of adults, dependent adults, and dependent children in the household.



The Financial Capability Factors are best understood as a combination of characteristics that may act as barriers or enablers to financially capable behaviour. They split into:

- **internal capability:**
 - **skills and knowledge**, which can collectively be thought of as **ability**; and
 - **attitudes and motivations**, which can collectively be thought of as **mindset**.
- **external capability:**
 - **ease and accessibility**, which can collectively be thought of as **connection** (subject to some concerns discussed in the 'ease and accessibility' section of this document).

Role of the survey

The survey has been designed to support the Financial Capability Strategy for the UK ('the Strategy') in three ways. These are in line with objectives suggested by the Financial Literacy and Education Russia Trust Fund's 2013 review of financial capability surveys around the world.¹¹

1. a **'map'** of financial capability – showing where behaviour is stronger or weaker in the population, and the extent to which it differs by age group, region, working status, housing tenure or household composition, for example;
2. a **diagnostic** tool – providing hypotheses about why capability is stronger or weaker – by looking at the Financial Capability Factors that act as enablers to, or inhibitors of, financially capable behaviour. In other words, whether low financial capability seems to be driven more by a lack of 'skills and knowledge' as opposed to digital access or self-confidence; and
3. a **high-level monitor**, tracking levels of financial capability over the life of the Strategy. That being said, it must be recognised that levels of capability will not increase quickly, certainly at the total population level.

This report provides initial findings to meet the first two of these objectives, i.e. mapping and diagnosing problem areas to aid practitioners in designing and delivering interventions. The effectiveness of these interventions should then be tested by robust programme-level evaluation, rather than by use of the Financial Capability Survey itself.

In order to meet the third objective, during the first year of the Strategy we will work with a group of sector experts to develop composite measures of financial capability and behaviour. These measures will be derived from the Financial Capability Survey, with details to be published in 2016.

We expect to conduct the survey several times over the course of the ten-year Strategy. We will not conduct the survey during 2016. This will give time for us and sector stakeholders to analyse the data and if appropriate explore issues in greater depth in a series of 'deep dives'. The full dataset will be made available via the UK Data Service.¹²

¹¹ Perotti, V.; Zottel, S.; Iarossi, G.; Bolaji-Adio, A. Making sense of financial capability surveys around the World: a review of existing financial capability and literacy measurement instruments (World Bank, February 2013). <http://documents.worldbank.org/curated/en/2013/02/18136727/making-sense-financial-capability-surveys-around-world-review-existing-financial-capability-literacy-measurement-instruments>

¹² <http://ukdataservice.ac.uk/get-data>

Summary scores to map and diagnose

Grouping and setting thresholds

The Financial Capability Survey 2015 contained 61 questions to measure self-reported behaviours related to 'managing money well day to day', 'preparing for and managing life events' and 'dealing with financial difficulties'.

We needed to summarise the key findings in order to provide an initial view of the map and diagnosis of problem areas for financial capability in Scotland. The chart shows the initial structure that we have used to in order to produce this. Within each domain, we have created topics and then grouped a small number of key questions into these topics.

Behavioural domains	
Managing money well day to day	
Take control	<ul style="list-style-type: none"> ■ Keep track of current account balance ■ Have a budget approach that works (self-reported) ■ Keep up with commitments
Short-term buffer	<ul style="list-style-type: none"> ■ Save every/most months ■ Could pay an unexpected £300 bill from savings or cash
Use credit sensibly	<ul style="list-style-type: none"> ■ Don't revolve credit card or use high-cost short-term credit ■ Have unsecured debt less than one month's income
Maximise income	<ul style="list-style-type: none"> ■ Check supplier tariffs (mobile phone, utilities etc.)
Preparing for and managing life events	
Have a plan	<ul style="list-style-type: none"> ■ Have financial goals ■ Have a plan to achieve their goals (based on all)
Build resilience	<ul style="list-style-type: none"> ■ Have savings equal to at least 3 months' income ■ Have life cover
Prepare for retirement	<ul style="list-style-type: none"> ■ Paying into a pension or have a previous pension scheme (working-age only) ■ Have a plan for long-term care (50+ only)
Preparing for and managing life events	
Manage debt	<ul style="list-style-type: none"> ■ Debts are not a heavy burden ■ Have not missed three months' payments (in last six months)

The grouping of topics and questions within the domains is a product of an evolving view of the components of financial capability. Working backwards through time, this is best summarised as follows:

- the topics and groupings shown above were developed following the six-month process of reviewing and updating the 2015 questionnaire;¹³
- the groupings within the domains were also based on the financial capability model detailed in the March 2015 Strategy 'Consultation Response and Next Steps';¹⁴
- based on consultation responses, the March 2015 document updated the model proposed in the 'Draft Strategy' put out to consultation in September 2014;¹⁵

¹³ More detail about this can be found in the 2015 Survey technical report

¹⁴ https://prismic-io.s3.amazonaws.com/fincap-two%2F7ac2f4a9-bf30-4da2-b191-3859eea9396c_uk_financial_capability_strategy_consultation_response_march2015_online.pdf

¹⁵ Financial Capability Strategy for the UK - The Draft Strategy (September 2014). https://prismic-io.s3.amazonaws.com/fincap-two%2F50938604-8f32-43d4-930d-176a150f225d_1.+fcs+draft+strategy.pdf

- the behavioural domains used in both of these documents were themselves based on the definitions used in the design of the 2013 Financial Capability Tracker;¹⁶ and
- the behavioural domains used in the 2013 Tracker were themselves modified versions of the domains produced in the 2005 Baseline Survey.¹⁷

The result of this process is that we have been able to produce groupings that are in very broad terms reflective of consensus opinion about which behaviours are important. These groupings form the basis of this report's map and diagnosis, and are intended to provide the most informed picture currently possible based on an initial view of the 2015 data.

We took a similar approach to the Financial Capability Factors that might explain variations in people's behaviours. Again, in order to produce an initial map and diagnosis, we grouped the questions normatively and defined thresholds.

Financial Capability Factors	
Ability (skills & knowledge)	
Knowledge	<ul style="list-style-type: none"> ■ Able to read the balance on a bank statement ■ Realise that if inflation is 5% and interest is 3%, then buying power is reduced
Skills	<ul style="list-style-type: none"> ■ Calculate the balance at the end of the year if £100 paid into a savings account at guaranteed 2% interest pa
Mindset (attitudes & motivations)	
Attitudes to the future	<ul style="list-style-type: none"> ■ Strongly disagree that prefer to live for today, rather than plan for tomorrow ■ Believe it is very important to save for a rainy day ■ Believe it is very important to put aside for retirement
Confidence and self-efficacy	<ul style="list-style-type: none"> ■ Feel confident managing their money (8 or more out of 10) ■ Disagree that financial situation makes them nervous ■ Disagree that nothing they do will make a difference to their financial situation
Take responsibility	<ul style="list-style-type: none"> ■ Believe it is important to keep track of income and expenditure ■ Believe it is important to shop around ■ Don't think that "often buying on impulse" is like them ■ Disagree that they are too busy to sort their finances ■ Discuss money openly with friends, family or partner ■ Think that "adjusting non-essentials when life changes" is like them
Connection (ease & accessibility)	
	<ul style="list-style-type: none"> ■ Feel confident in their ability to make financial product decisions (8 or more out of 10) ■ Have accessed internet within last seven days ■ Agree that they are happy to bank online

¹⁶ The Financial Capability of the UK (Money Advice Service, August 2013). <https://www.moneyadviceservice.org.uk/en/corporate/the-financial-capability-of-the-uk>

¹⁷ Atkinson, A; McKay, S; Kempson, E; Collard S. The baseline survey of the financial capability of the UK (University of Bristol Personal Finance Research Centre / Financial Services Authority, March 2006). <http://www.bristol.ac.uk/geography/research/pfrc/themes/fincap/baseline-survey.html>

Behavioural and Financial Capability Factor Scores

Based on the groupings just described, we calculated an overall score for each of the behavioural domains and each of the Financial Capability Factors. We did this by averaging the proportion of adults meeting the threshold across each applicable question.

This gave us eight scores. Three cover behaviours:

1. managing money well day to day;
2. preparing for and managing life events; and
3. dealing with financial difficulties.

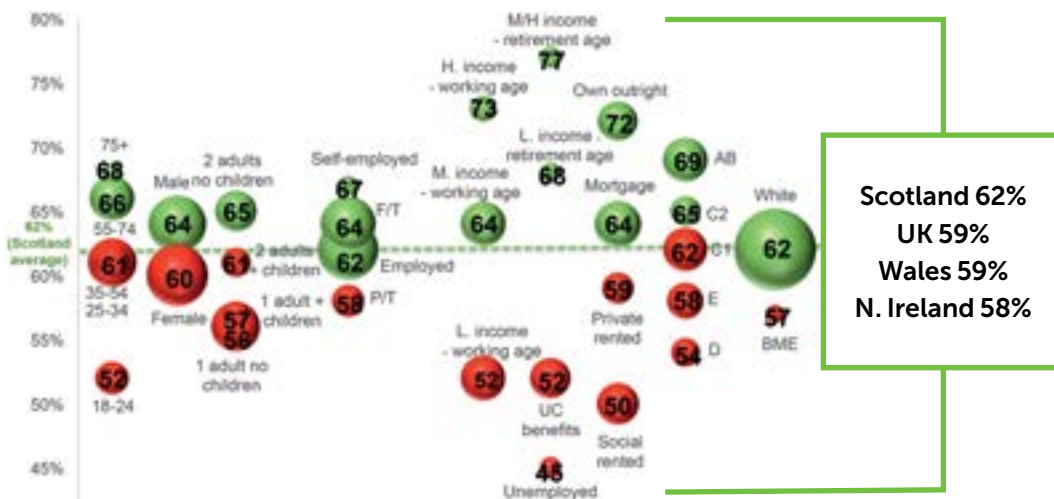
The remaining five cover the Financial Capability Factors:

4. skills and knowledge
5. attitudes and motivations – attitudes to the future;
6. attitudes and motivations – confidence and self-efficacy;
7. attitudes and motivations – take responsibility; and
8. ease and accessibility.

These scores form the basis of the mapping and diagnosis in this report. They are shown in 'bubble charts' so it is possible to see where specific groups differ from the overall average, as shown in the example based on 'managing money well day to day'.

Across the whole Scotland adult population, the average score for 'managing money well day to day' is 62%, but this does not mean that 62% of the population manage their money well day to day.

Example chart: Who manages their money well or less well?



The figures show the behavioural score for each group. Green bubbles above the dotted line are groups with behavioural scores that are average or better. Red bubbles below the line show groups who scored below the average.* The size of the bubbles reflects the relative size of each group. A selection of groups is shown in the chart: it is not meant to be exhaustive but to illustrate the range of behavioural scores within this domain.

* It is difficult to apply tests of statistical significance to a measure based on several questions, so the results are presented with the caveat that we have not been able to apply any statistical significance testing.

These scores give an initial view of emerging findings from the 2015 Survey. But it is only an initial view and needs to be read with some caveats in mind. The next section discusses these issues in more detail and gives our planned approach to addressing them.

Testing and improving our analytical approach

As just discussed, it has been necessary to reduce a large number of survey questions to a small number of key measures in order to provide an initial map and diagnosis. This has necessitated some simplifications. The scores presented in this report should be read subject to the following caveats.

All measures of behaviour are self-reported, but in the absence of observational data, this provides the best evidence available. Care was taken in questionnaire design and fieldwork to minimise the likelihood that people will give 'socially acceptable' answers, and if this is the case, comparisons between demographic groups remain valid and of interest.

People's circumstances differ, so the relative importance and desirability of each behaviour will vary between different people. For example, someone with an outstanding credit card balance might be less well advised to save regularly rather than clearing the balance. However we have selected behaviours and thresholds which could in general be considered to be desirable. This is based on previous research such as the 2005 baseline questionnaire (itself developed through qualitative research with consumers) and qualitative research conducted for the Money Advice Service.¹⁸

Many financial behaviours do not have a 'cliff-edge' which separates 'good' from 'bad'. This means that:

- movement towards the thresholds shown above may be desirable (e.g. starting to save but only doing so irregularly); and
- similarly, moving further past a threshold may also be desirable (e.g. moving from saving most months to saving every month).

Simplification removes detail. This is inevitable when, for example, reducing the 40 questions covering day-to-day money management to a single measure. However the report does provide a more detailed picture of particular problem areas using other questions from the 2015 Survey. In addition, this report presents initial findings from the survey. The full dataset will be available for researchers or practitioners to conduct their own secondary analysis. We expect to analyse the data in more detail ahead of the next Financial Capability Survey.

Groupings and thresholds are normative, in that they have not been designed based on which behaviours and factors correlate within the 2015 Survey data. This means there is a risk that the analytical approach is based on what we think is important, rather than what data tells us actually is important. There is also a danger that we are grouping together factors which may be pulling in different directions.¹⁹ A key component of the Strategy's focus on insight and evaluation is the need to test empirically our assumptions about what works, what is important or what is desirable. Further analysis is underway to check whether the current groupings are fully supported by the 2015 data and if necessary to refine our approach. We expect to publish the results of this work in 2016 as part of the development of measures for the overall success of the Strategy.

¹⁸ Financial Capability and Wellbeing – a qualitative report (TNS BMRB / Money Advice Service, March 2015). <http://comfy.moneyadviceservice.org.uk/system/Comfy/cms/files/files/000/000/213/original/financial-capability-and-wellbeing.pdf>

¹⁹ This is a particular potential concern for ease and accessibility, where internet access, usage and attitudes appear to be higher among different groups from confidence in making financial product and service decisions.

Mapping behaviour

Managing money well day to day

What behaviours make up effective day-to-day money management?

Day-to-day money management consists of a variety of behaviours. These include:

- taking control of finances – through keeping track, having an effective approach to managing household budgets and keeping up with bills and commitments;
- having a short-term buffer – saving regularly and being able to pay an unexpected £300 bill from savings or spare money;
- using credit sensibly – not revolving credit card balances, using high-cost short-term credit or having a large amount of unsecured debt; and
- maximising income – checking suppliers or tariffs for utilities and financial services/products.

The 2015 survey included questions covering each of these. In order to provide an initial map and diagnosis, we have grouped questions, defined thresholds of desirable behaviour, and produced a composite score for 'managing money well day to day'.

Table 1 shows a summary of the proportion of Scotland adults meeting the threshold for what could be considered to be desirable for each behaviour, and comparing this with the figures for the UK. At an all-UK level, comparisons are also made with data from the 2005 survey.

Table 1: 'Managing money well day to day': behavioural scores

	All Scotland adults	All UK adults	
	2015 (1,101)	2015 (3461)	2005 (5328)
Take control			
Keep track: know current account balance +/- £50	63%	59%	56%
Believe they have a budget approach that works*	61%	61%	–
Keep up with commitments without difficulty	60%	58%	65%
Short-term buffer			
Save every/most months	59%	56%	–
Could pay an unexpected £300 bill from savings or cash without cutting back	70%	68%	–
Use credit sensibly			
Don't revolve credit card or use high-cost, short-term credit	82%	77%	–
Have unsecured debt less than one month's income	74%	70%	–
Maximise income			
Check supplier tariffs (mobile phone, utilities, etc.)	82%	78%	–
* Gave their approach to keeping track of income and expenditure a score of 8-10/10 where 0 means it works not at all well and 10 means it works very well			

This provides a view of the scale of the task facing practitioners seeking to improve the day-to-day money management of adults in Scotland.

For the behaviours linked to taking control, just under six in ten of the Scotland adult population meets the threshold, meaning that around four in ten do not. The same is also true for saving every/most months. However, for being able to pay an unexpected bill of £300 from savings or cash without cutting back, and for the behaviours linked to using credit sensibly and maximising income, the proportion of Scotland adults meeting the threshold is between seven and eight in ten.

Behaviours reported by Scotland adults are similar to those reported by adults in the UK, although adults in Scotland are slightly more likely to know their current account balance within £50 or to maximise income. They are also slightly less likely to revolve credit cards or use high-cost short-term credit (a slightly higher proportion say they don't do either of these).

A single overall measure of day-to-day money management

It is then possible to combine these behaviours into a single indicator for 'managing money well day to day' in order to examine whether particular groups in the population appear to be managing their money notably better or worse. This has been done as follows:

1. firstly we have calculated the proportion meeting each threshold as shown in the previous table;
2. then we have calculated an average score for each of the four sub-domains of take control, short-term buffer, use credit sensibly and maximise income. This has been done by calculating a simple mean average of the scores within each sub-domain; and
3. finally we have taken a simple mean average of the scores from the four sub-domains.

For Scotland adults, this gives an overall score of 62%.

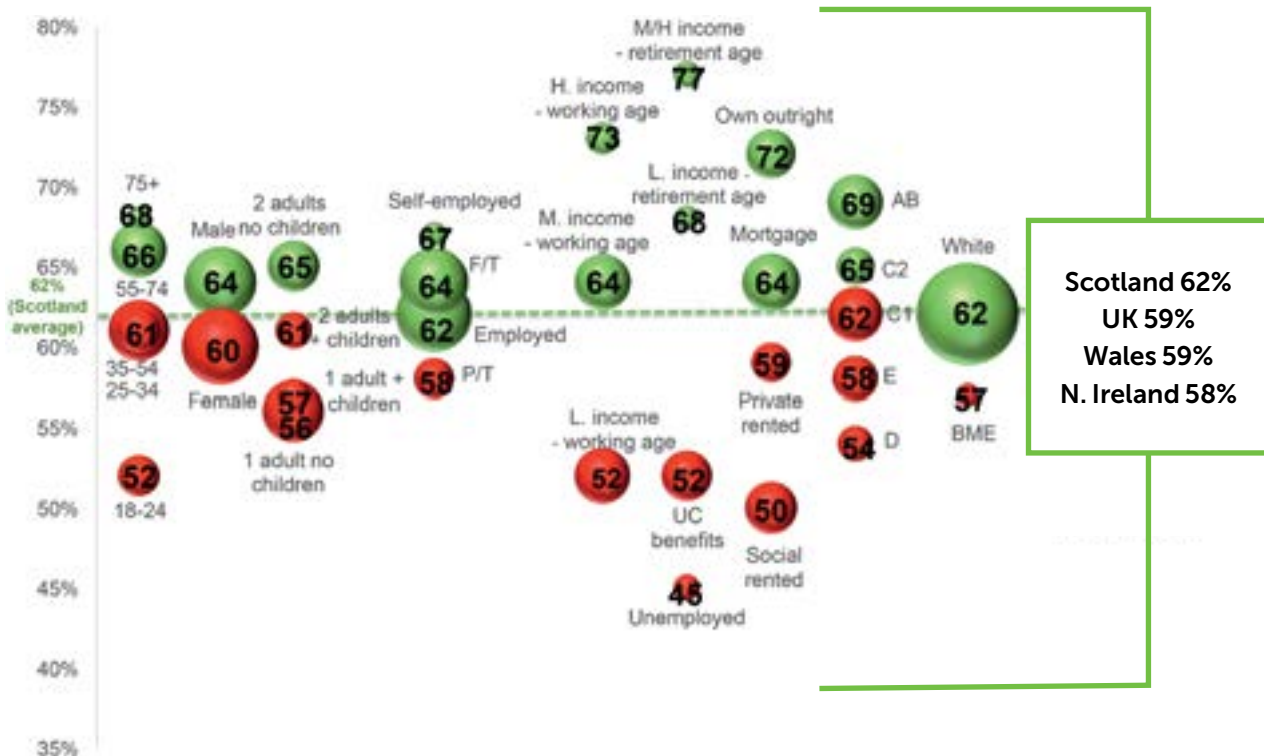
Who manages money less well day to day?

Mapping where behaviour is strong or weak provides practitioners with additional insight to design interventions more effectively. For example, the Money Advice Service is already using data from the 2015 Survey to inform the design of budgeting support being developed and delivered in partnership with the Department for Work and Pensions (DWP).

There is some variation between different sections of the population, as Chart 1 shows (though not as much variation as within the next behavioural domain, 'preparing for and managing life events').

This data suggests that targeted interventions may be appropriate for some lower-scoring groups, but also that many lower-scoring people are spread across the population. Concentrating solely on the lowest-scoring groups will not adequately address low financial capability when it comes to 'managing money well day to day'.

Chart 1: 'Managing money well day to day': behavioural scores



Behavioural scores for day-to-day money management appear better amongst the following groups (similar patterns are also observed in the UK as a whole):

- **older people** – there is a gradual improvement by age. Whilst in the UK, scores drop slightly at the 75+ age-band, this is not the case in Scotland where the 75+ age-band scores highest on this domain (although the small base of 58 for this group should be noted);
- **retired people** (the effect of which overlaps to a certain extent with the above age differences);
- people in **higher social grades**, especially ABs (which in itself is linked to higher household income); and
- **owner-occupiers who do not have mortgages** (labelled 'own outright' on the chart), who tend to be older and wealthier.

Behavioural scores for day-to-day money management are lower amongst the following groups. These groups overlap to some extent and are partly linked to lower incomes:

- younger working-age adults, particularly **18-24 year-olds**;²⁰
- recipients of benefits being replaced by Universal Credit (labelled 'UC benefits' in the chart above);
- **unemployed people** (who are a smaller subgroup within future UC recipients); and
- tenants in **social housing**.

Having identified these as people with lower behavioural scores for day-to-day money management, it is possible to use the survey data to provide more detail of the specific behaviours and factors underlying this. This is addressed later in this report.

In addition, although some groups score worse than others, the overall adult score (62%) is lower than might be considered desirable. For half of the behaviours used to calculate this score, around two-fifths of Scotland adults do not meet the thresholds. This suggests that in Scotland, as in the rest of the UK, there is also a case for interventions targeted at groups broader than just young adults, benefit recipients (including unemployed people) and social housing tenants.

²⁰ Throughout this report, it should be noted that the 18-24 age group is a subset of the group of Working-Age People.

Preparing for and managing life events

What behaviours make up 'preparing for and managing life events' behavioural domain?

The 'preparing for and managing life events' behavioural domain consists of a variety of behaviours. These include:

- having plans and goals – having financial goal(s) for the next five years and having at least some extent of planning to achieve any of these goals;
- resilience – having some element of financial resilience through savings and life cover; and
- preparing for a retirement – contributing to a pension (if of working-age) and having at least some element of planning or preparation for possible social care costs (if aged 50 or over).

The 2015 Survey included questions covering each of these. As with 'managing money well day to day', it has been necessary to reduce a large number of survey questions to a small number of key measures in order to provide an initial map and diagnosis. This means that we are making some simplifications and assumptions, for example by assuming that, other things being equal, holding three months' worth of savings and having life cover are desirable. Within our initial view of key measures, we have not made explicit allowances for achieving resilience through the use of protection products.

In addition, collecting accurate information about pension assets is difficult due to generally poor respondent recall of types and values of pension funds or entitlements. Given the availability of more robust data on this via the ONS Wealth and Assets Survey²¹ and restrictions on questionnaire length, we made a decision to include only a small number of questions related to preparation for retirement. We are considering the value of a separate study tracking consumers' planning for retirement.

Table 2 shows a summary of the proportion of Scotland adults meeting the threshold for what could be considered desirable for each behaviour, where possible comparing this with data from UK adults. Different behaviours may be deemed desirable for different groups, so results are shown based on the groups to which they apply.

Table 2: 'Preparing for and managing life events': proportions reaching thresholds

	All Scotland adults 2015		All UK Core adults 2015	
	Base	%	Base	%
Have a plan				
Have financial goals	All (1,101)	47%	All (3,461)	51%
Have a specific plan to achieve those goals	All (1,101)	32%	All (3,461)	32%
Build resilience				
Have savings equal to at least 3 months' income	All (1,101)	30%	All (3,461)	34%
Amongst working-age people	All working-age (885)	27%	All working-age (2,786)	28%
Amongst retired people	All retired people (216)	43%	All retired people (680)	57%
Have life cover	All (1,101)	49%	All (3,461)	41%
Prepare for retirement				
Pay into pension or have previous pension	All working-age (885)	53%	All working-age (2,786)	50%
Have a plan for long-term care	All 50+ (737)	28%	All 50+ (1,301)	28%

²¹ <http://www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-3/index.html>

Whilst adults in Scotland are less likely than adults in the UK to say that they have financial goals, they are no less likely to say that they have plans to reach those goals.

Although adults in Scotland are slightly more likely than adults in the UK to say they save every/most months, they are slightly less likely to say that they have savings equivalent to at least three months' income: this difference is mainly amongst retired people in Scotland who are much less likely than their counterparts in the UK to say they have this level of savings.

Who prepares less well for life events?

As was the case for 'managing money well day to day', there is considerable variation between different sections of the population, as Chart 2 shows. Some lower-scoring groups also scored lower than average for 'managing money well day to day' – but this is not true in all cases. It is also worth noting that:

- 'preparing for and managing life events' scores are generally lower than those for 'managing money well day to day', i.e. **when it comes to money, we manage the present better than we plan for the future.** This is broadly consistent with the findings of the 2005 Baseline Survey of Financial Capability.²² It will probably also come as no surprise to behavioural scientists²³ or users of MINDSPACE,²⁴ though the survey data does not provide a clear view of whether it is due to people preferring the present over the future or expecting things to be better in the future (optimism bias); and
- 'preparing for and managing life events' scores vary more between sub-groups than 'managing money well day to day', i.e. **the gap between best and worst is bigger for planning for the future than for managing the present.** Again this is broadly consistent with the 2005 baseline.

The average behavioural score within the 'preparing for and managing life events' domain amongst all Scotland adults was 41% (shown as a dotted line on Chart 2): this was largely in line with the behavioural score in the UK (40%).

There is considerable variation between different sections of the Scotland population, as the bubble chart shows. The figures show the behavioural score for each group. Green bubbles above the dotted line are groups with behavioural scores that are average or better. Red bubbles below the line show groups who scored below the average.²⁵ The size of the bubbles reflects the relative size of each group. Patterns in response are broadly the same in the UK.

Behavioural scores in this domain were higher among:

- **25-54 year-olds;**
- people in **higher social grades**, especially ABs (which in itself is linked to higher household income); and
- owner-occupiers paying for their home with a **mortgage.**

Scores were lower amongst these groups, some of which overlap and are linked to lower incomes:

- **18-24 year-olds²⁶ and people aged 75+,** in particular (though the small base should be noted – 58 Scotland respondents were aged 75+);
- recipients of benefits being replaced by Universal Credit;
- **unemployed people** (who are a smaller subgroup within future UC recipients), though the small base should be noted (70 people in Scotland said they were unemployed) which means that the difference in Scotland is not as pronounced as in the rest of the UK; and
- tenants in social housing.

²² The 2005 Baseline used different behavioural domains. It found much better performance in terms of 'Making ends meet' and 'Keeping track' than for 'Planning ahead'. The 2005 Baseline's 'Making ends meet' and 'Keeping track' can be seen as broadly equivalent to the 2015 'Managing money well day to day'. Similarly, 2005's Planning ahead covers much of the same material as Preparing for and Managing Life Events.

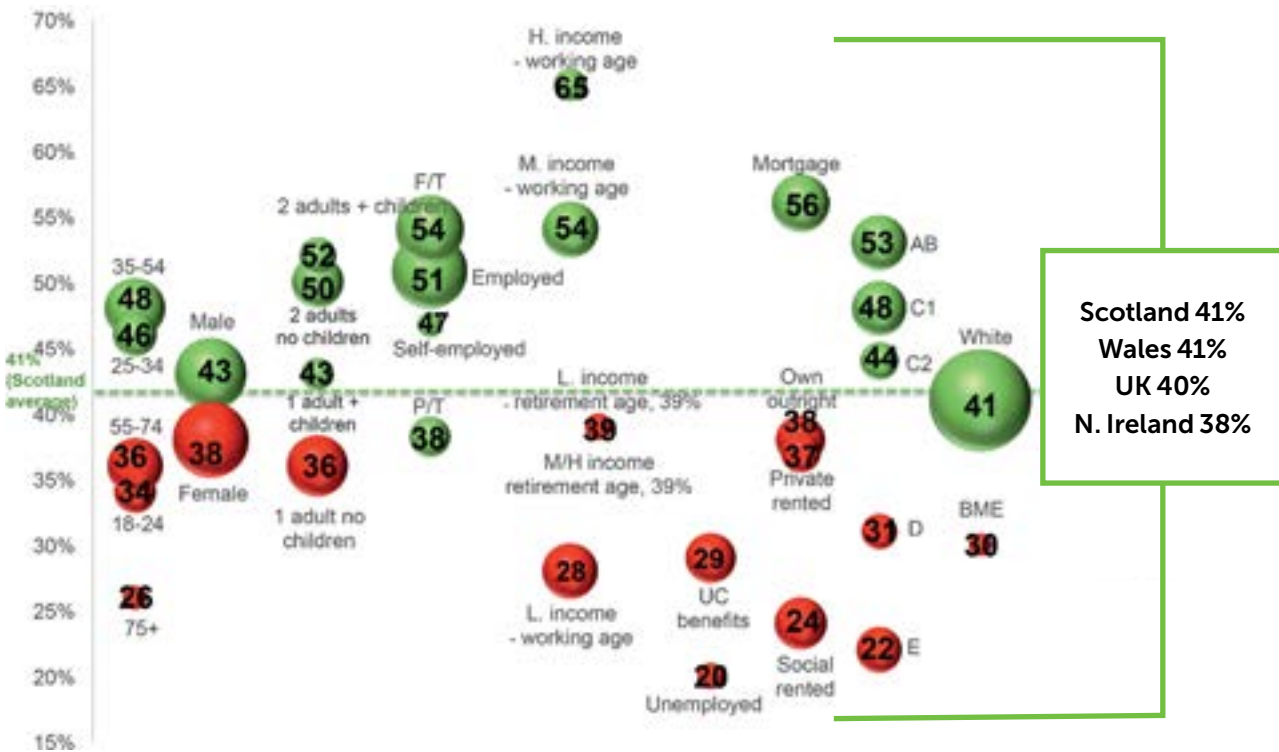
²³ RSA 2015 Wired for Imprudence <https://www.thersa.org/discover/publications-and-articles/reports/wired-for-imprudence/>

²⁴ <http://www.instituteforgovernment.org.uk/our-work/better-policy-making/mindspace-behavioural-economics>

²⁵ It is difficult to apply tests of statistical significance to a measure based on several questions, so the results are presented with the caveat that we have not been able to apply any statistical significance testing.

²⁶ As in the 2015 data, the 2005 Baseline Survey of Financial Capability found an age effect with the youngest scoring lowest. But the 2005 data also showed a clearer difference between under-40s (who scored worse) and over-40s (who scored better) than the 2015 data. However this may be related to the different questions covered by the domains in the two surveys.

Chart 2: Who prepares better or less well for life events?



In addition, although some groups score worse than others, the overall adult score (41%) is lower than might be considered desirable. For most of the behaviours used to calculate this score, only between a quarter and a half of Scotland adults met the threshold set.

This suggests that although it may be appropriate to target interventions at particularly low-scoring groups, there is a need to address a more widespread lack of preparation for life events amongst the population of Scotland as a whole.

Tackling financial difficulties

What behaviours make up the ‘tackling financial difficulties’ behavioural domain?

The third set of behaviours relates to ‘tackling financial difficulties’. This includes, but is not limited to, requiring and seeking debt advice. The two key measures used here have been developed in work for the Money Advice Service in defining and profiling the over-indebted population.²⁷

They cover the emotional and behavioural aspects of debt:

- emotional – do not feel that debts and commitments are a ‘heavy’ burden; and
- behavioural – have not missed three or more payments in the last six months.

As shown below in Table 3, for each of these around nine out of ten Scotland adults pass the threshold and 86% pass the threshold for both.

Adults in Scotland are slightly more likely than those in the UK to say that debts are not a ‘heavy’ burden and to report that they had not missed three months’ payments in the past six months.

²⁷ Indebted Lives: the complexities of life in debt (Money Advice Service, November 2013). <https://www.moneyadviceservice.org.uk/en/corporate/indebted-lives-the-complexities-of-life-in-debt>

Table 3: 'Tackling financial difficulties': proportions meeting threshold

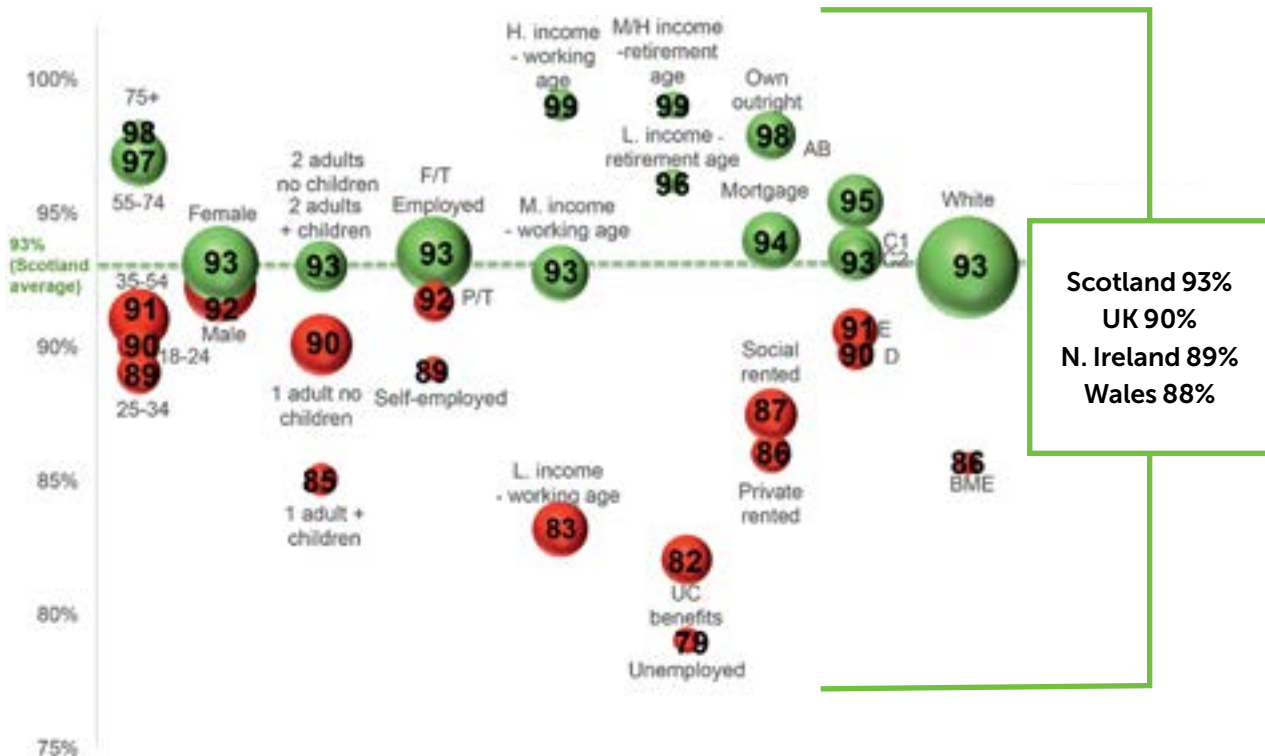
	All Scotland adults 2015	All UK Core adults 2015
	(802) %	(3,461) %
Debts are not a 'heavy' burden	93%	90%
Not missed three months' payments in the last six months	92%	89%
Debts are not a 'heavy' burden and not missed three months' payments ²⁹	86%	82%

A single measure for financial difficulties

Keeping the same approach as for the other two behaviour domains, we averaged the rating across the two indicators to show an average behavioural score for this domain of 93% in Scotland: again slightly higher than the 90% observed in UK.

High- and low-scoring groups in Scotland are shown in Chart 3. It should be noted that the distribution of scores was less spread than for other behavioural domains, so the bubble chart is shown on a different scale to enable the differences to be seen.

Chart 3: Who is better or worse at tackling financial difficulties?



Lower-scoring groups include:

- **unemployed people** (though the small base should be noted – 70 respondents in Scotland said they were unemployed); and
- **recipients of benefits** being replaced by Universal Credit.

²⁸ Feeling debt is a heavy burden and missing three payments is the basis of the definition of over-indebtedness used in the Money Advice Service's Indebted Lives research.

Seeking free debt advice

Among the over-indebted (those who have missed three payments or feel debt is a heavy burden):

- 16% are already seeking advice;
- 43% say they are planning to do so soon, would consider if the situation got worse, might consider or are thinking about doing it in the future; and
- 31% say they would never consider or cannot see themselves doing.

Clearly there is a challenge in encouraging more people to seek debt advice.

Among those not currently seeking advice, the most common reasons given are:

- I can sort my own money and debt issues out (45%); and
- their services are not really for someone in my financial situation (27%).

These results are in line with those for the UK overall.

A map of the challenges

Bringing together findings from across all three behavioural domains provides a map of where there are challenges. Specifically we are able to identify groups within the population where financially capable behaviour is noticeably less common.

Table 4: Groups which score worse than average across one or more behavioural domains

	Unwtd base	'Managing money well day to day'	'Planning for and managing life events'	'Dealing with financial difficulty'
UK average	3461	59%	40%	90%
All Scotland average	1101	62%	41%	93%
18-24	174	52%	34%	90%
Unemployed	70*	45%	20%	79%
Recipients of benefits being replaced by Universal Credit ³⁰	250	52%	29%	82%
Social rented	271	50%	24%	87%
Social grade D	127	54%	31%	90%
Social grade E	207	58%	22%	91%

*Caution, low base

Some of these groups overlap, so we have initially focused on 18-24 year-olds, unemployed people, recipients of benefits being replaced by Universal Credit, and tenants in social housing.

These target groups are consistent with those identified in previous research, most notably analysis of the 2013-4 Financial Capability Tracker data conducted by the Personal Finance Research Centre (PFRC) of the University of Bristol.³⁰ These patterns are also broadly consistent with those seen in UK.

Specific issues for these groups are discussed later in this report.

In addition many of these groups score lower on aspects of the Financial Capability Factors discussed in the next section.

²⁹ These benefits are: Income-based Jobseeker's Allowance, Income-related Employment and Support Allowance, Income Support, Child Tax Credit, Working Tax Credit, Housing Benefit

³⁰ Hayes, D., Collard S., and Kempson E. Understanding the profile of those most at risk of detriment as a result of low financial capability: Analysis of the Money Advice Service Financial Capability Survey (University of Bristol Personal Finance Research Centre / Money Advice Service, March 2015). <http://www.bristol.ac.uk/geography/research/pfrc/themes/fincap/understanding-the-profile-of-those-most-at-risk-of-detriment-as-a-result-of-low-financial-capability/>

Diagnosis – what are the barriers and enablers?

In previous sections we have used the data as a map to identify particular problem areas of behaviour. We also identified some targetable subgroups of the population where these problems are particularly concentrated. This provides evidence upon which practitioners can base the design and delivery of financial capability interventions and initiatives. It identified possible target groups and target behaviours.

This section uses the data as a diagnostic tool to attempt to understand what factors may act as barriers or enablers to financially capable behaviour.

Financial Capability Factors

The survey approach is based on a model of Financial Capability Factors that predates the 2015 Survey. The model is based on the COM-B model of ability, which is widely used within psychology. This has then been applied to financial issues.

The Financial Capability Factors are best understood as a combination of characteristics that may act as barriers or enablers to financially capable behaviour. They split into:

■ internal capability:

- **'skills and knowledge'**, which can collectively be thought of as ability; and
- **'attitudes and motivations'**, which can collectively be thought of as mindset.

■ external capability:

- **'ease and accessibility'**, which can collectively be thought of as connection (subject to some concerns discussed in the 'ease and accessibility' section of this report.)

Several survey questions cover each of these topics. We then selected a threshold to represent the point at which the factor might change from being a barrier into an enabler of financially capable behaviour. This use of thresholds is the same approach we used to summarise behaviours. Again it is an initial approach to summarising complex survey data. It provides a useful starting point in use of the 2015 data, but we expect to refine the approach before conducting the next UK survey in 2017.

Skills and knowledge

The low level of numeracy and literacy among UK adults is well documented.³¹ Many financial products are quite complex and there is a known problem with their comprehension by consumers. In this survey we found that even the simpler measures we included were challenging for a significant minority of those surveyed. The role of the 'skills and knowledge' questions in the 2015 Survey is to provide a small number of simple measures that identify who lacks basic 'skills and knowledge' and whether this is linked to less financially capable behaviour. Comparisons are made against results in the UK.

Presented below in Table 5 is a summary showing the proportion of Scotland adults giving a correct answer for each question, and comparing this with the figures for the UK. At an all-UK level, comparisons are also made with data from the 2005 survey.

Table 5: Ability ('skills and knowledge'): % giving correct answers to each question

	All Scotland adults		All UK Core adults	
	2015 (1101)		2015 (3461)	2005 (5328)
Reading balance on bank statement	83%		78%	91%
Comprehension of inflation and buying power	62%		60%	79%
Calculate balance after interest added	67%		64%	61% ³²

³¹ UK Commission for Employment and Skills, Employer Skills Survey 2013, <https://www.gov.uk/government/publications/ukces-employer-skills-survey-2013>

³² 2010 OECD Financial Literacy and Education pilot study http://www.oecd-ilibrary.org/finance-and-investment/measuring-financial-literacy_5k9csfs90fr4-en

Adults in Scotland are slightly more likely than their counterparts in the UK to give correct answers to each of the three questions, in particular to the question asking people to read a balance on a bank statement (83% in Scotland gave a correct answer, compared with 78% in UK). The higher proportion in Scotland giving the correct answer is linked to the fact that the groups in the UK who were less likely to give a correct answer are slightly more likely to give a correct answer in Scotland. For example, looking at the question asking respondents to calculate an account balance after interest was added (interest plus principle question):

- 64% of retired people in Scotland gave a correct answer, compared with 61% of retired people in UK
- 49% of social rented tenants in Scotland, compared with 43% in UK
- 54% of those in social grade D in Scotland, 50% in UK
- 52% of those in social grade E in Scotland, 47% in UK

It is notable that, in the UK there have been some declines in 'skills and knowledge' compared to the 2005 Baseline Survey. The proportion of UK adults able to read a bank statement has fallen by thirteen percentage points from 91% to 78%. As before, it should be noted that there are some differences in methodology but this decline is concerning, as is the even greater fall in those who understand the effect of inflation on the real value of savings – which has fallen to 60% from 79%. In contrast the number who can perform a relatively simple calculation to add interest earned to a savings balance has increased more modestly from 61% to 64% of UK adults.

These are relatively simple concepts and calculations and as such it is worrying that up to one in three Scotland adults find them challenging, even though these proportions are lower than the UK. It raises questions about the extent to which these consumers can effectively select and manage financial products and services.

Does reading a bank statement still matter?

Internet access, usage and mobile technology have changed greatly since 2005. This has implications for how people check their balances and manage their current accounts. Given these changes, it is legitimate to ask:

- Does it really matter whether people can read an example bank statement correctly?
- Could the apparent decline in this skill be attributed to less widespread use of statements and greater use of mobile and internet banking?

Looking at how people keep track can give an indication of if being able to correctly read a statement is important or not:

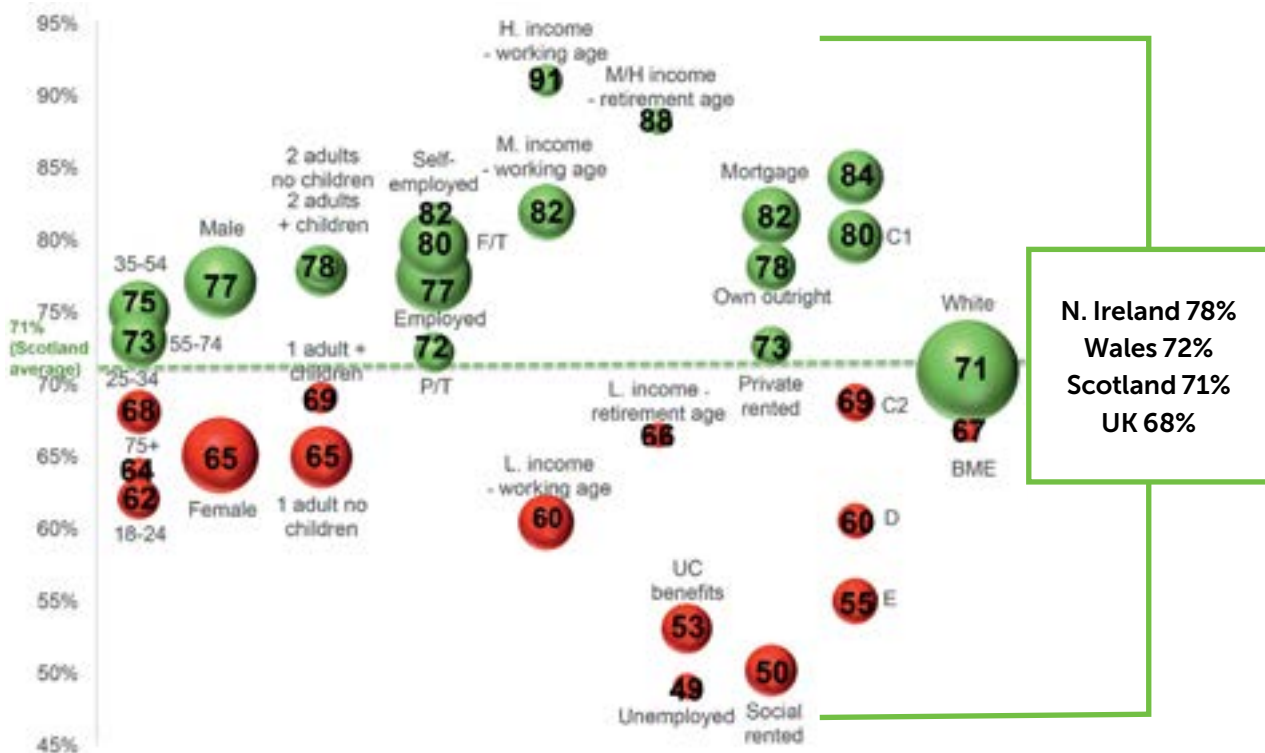
- In the UK, it appears that problems reading bank statements matter because incorrect answers at this question were more common among people who said they keep track of their balance by checking their bank statements received in the post (25% of those keeping track of their balance through checking postal statements read the balance incorrectly, compared with 12% of those keeping track through online banking). The lower proportion answering incorrectly in Scotland means that the difference between the two groups in Scotland is less marked though still significant (14% of people in Scotland checking postal statements v 8% of those keeping track through online banking).
- The apparent decline cannot be directly attributed to increases in online and mobile banking because users of these two channels were among the most likely to get the answer correct.

Who scores less well on 'skills and knowledge'?

An average 'skills and knowledge' score was calculated for each sub-group. Across all adults in Scotland, the score was 71%: slightly higher than the same score in UK (68%).

Chart 4 shows that the people most likely to score lower on 'skills and knowledge' are many of the same groups previously identified as concerns in the analysis of the behavioural domains: **younger people aged 18-24 and 75+**, those in **social housing**, **those on benefits being replaced by Universal Credit**, and **unemployed people**. It is also notable that performance on 'skills and knowledge' is one of the measures that varies most between different groups in the population.

Chart 4: Who has higher or lower 'skills and knowledge'?



Attitudes and motivations

The second distinct group of factors in the model covers 'attitudes and motivations'. For the purposes of summarising the data and creating domain scores we have grouped these into:

- attitudes to the future;
- confidence and self-efficacy; and
- attitudes to taking responsibility for finances.

Several questions cover each of these groupings. As for previous measures, we have defined a threshold between positive and negative attitudes.

Attitudes to the future

The summary table below shows that only between a third and a half of Scotland adults meet the threshold for positive financial attitudes to the future. Half disagree that they prefer to live for today rather than plan for tomorrow. Only a third say it is very important to save for a rainy day, and this figure is only slightly higher when it comes to saving for retirement.

Responses given by adults in Scotland are very similar to those in the UK as a whole, though it is notable that adults in Scotland are less likely than the UK average to think it is very important to save for a rainy day.

Furthermore, there has been a decline in the proportion of UK adults who don't prefer to just live for today – from 60% at the 2005 Baseline Survey, to 49% in 2015.

Table 6: Attitudes to the future – proportions meeting threshold

	All Scotland adults	All UK Core adults	
	2015 (1101)	2015 (3461)	2005 (5328)
Don't prefer to just live for today*	49%	49%	60%
Think it's very important to save for a rainy day	34%	40%	n/a
Think it's very important to put money aside for retirement	40%	42%	n/a
*% disagreeing strongly or slightly with statement "When it comes to money I prefer to live for today rather than plan for tomorrow"			

Confidence and self-efficacy

It is also important that consumers feel they can positively influence their own financial situation. But, as the table shows, only half (or in one case slightly over half) of adults in Scotland meet the threshold for each of the positive attitudes to confidence and self-efficacy. Only 58% are confident managing their money; half (47%) disagree that their financial situation makes them anxious; and half (51%) think they can make a difference to their financial situation. Responses given by adults in Scotland were again very similar to the UK average.

As before, there are certain groups in Scotland where these scores tend to be lower, which are inter-linked – such as lower-income groups, unemployed people, and social housing tenants. Lower-income groups are particularly unlikely to feel empowered with respect to their financial situation: only 40% of those with annual household incomes of less than £17,500 disagree that nothing they can do will make much difference to their financial situation, compared with 51% amongst all Scotland adults. Similar patterns were observed in the UK as a whole.

Table 7: Confidence and self-efficacy – proportions meeting threshold

	All Scotland adults	All UK Core adults
	2015 (1101)	2015 (3461)
Confident managing money*	58%	58%
Disagree thinking about their financial situation makes them anxious	47%	46%
Believe they can make a difference**	51%	48%
*Gave a score of 8-10/10, where 0 is 'not at all confident' and 10 is 'very confident'		
** % disagreeing strongly or slightly with statement "Nothing I do will make much difference to my financial situation"		

Taking responsibility

The final area of internal Financial Capability Factors relate to taking responsibility – that is the importance of keeping track of income and expenditure or shopping around; the need for self-control and not buying on impulse; the need to engage with finances by making time or talking openly; and recognition of the need to adjust spending on non-essentials when circumstances change. Table 8 shows results from Scotland adults and compares them with UK adults.

Table 8: Taking responsibility – proportions meeting threshold

	All Scotland adults	All UK Core adults
	2015 (1101)	2015 (3461)
Important to keep track of income and expenditure*	54%	53%
Important to shop around to make money go further*	40%	45%
Feel it is not 'like them' to buy on impulse**	78%	79%
Disagree too busy to sort out their finances***	63%	64%
Discuss money openly with anyone	74%	70%
Feel it is 'like them' to adjust non-essentials when life changes****	42%	40%
*% thinking it is very important ** give a score of 0-7/10, where 0 means it doesn't sound like them at all and 10 means it sounds a lot like them *** % disagreeing strongly or slightly with statement "I am too busy to sort out my finances at the moment" **** give a score of 8-10/10, where 0 means it doesn't sound like them at all and 10 means it sounds a lot like them		

Similar to the UK, around half (54%) of Scotland adults feel that it is very important to keep track of income and expenditure, but there can be a gap between what people say and what they do. Of those thinking that this is very important, only 93% said they actually do keep track, and 89% think they have an effective budgeting system.

Similarly, almost eight in ten (78%) of Scotland adults report that it is not like them to buy on impulse (giving this a score of seven or less out of ten), but we have seen earlier that almost a fifth (18%) of all Scotland adults revolve credit cards or use high-cost short-term credit.

There is scope to improve people's engagement with money:

- just over a quarter (26%) of adults in Scotland do not discuss money openly with anyone; and
- one in ten (13%) agree that they are too busy to sort out their finances at the moment.

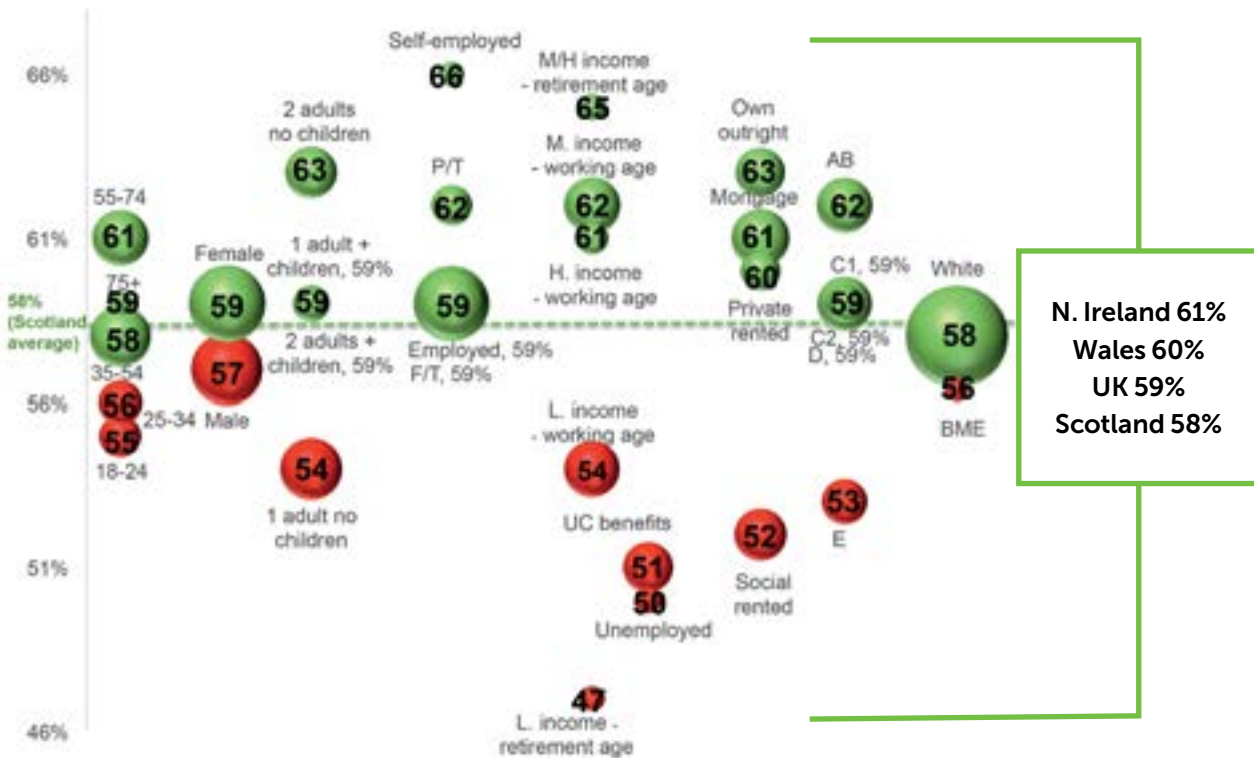
Who is better or worse at taking responsibility?

The average score across the taking responsibility domain in Scotland is 58%, which is similar to the 59% score in the UK. Chart 5 shows that the groups scoring lowest on the taking responsibility domain are generally the same groups which score low on the behavioural domains:

- lower-income groups;
- those in **social grade E** (social grade D was lower in the UK, but not in Scotland);
- recipients of **benefits being replaced by Universal Credit**; and
- **unemployed people**.

Responses given by adults in Scotland were broadly similar to those given by UK adults.

Chart 5: Who is better or worse at taking responsibility?



But again, as we noted when looking at ‘managing money well day to day’, the differences between the lowest- and highest-scoring groups are often not that large (the scale on the chart has been extended to more clearly show differences). This suggests that while there is some benefit to targeting interventions at specific sub-groups described, there are broader issues for the population.

Ease and accessibility

The final area of financial capability is 'ease and accessibility' – that is the extent to which consumers can engage with the financial system – being confident in their ability to select financial products or services and to access them digitally or via an offline channel. The survey finds that around 5 in 10 Scotland adults said they feel confident making financial product decisions and around six in ten are happy to bank online.

Adults in Scotland are equally likely as those in UK to say they feel confident making financial product decisions, but they are less likely to say that they are happy to bank online (58% in Scotland, 62% in UK).

Table 9: Connection ('ease and accessibility') – proportions meeting threshold

	All Scotland adults	All UK Core adults
	2015 (1101)	2015 (3461)
Confident making financial product decisions*	47%	47%
Have accessed the internet in the last seven days	84%	86%
Agree that they are happy to bank online**	58%	62%
* Gave a score of 8-10/10, when asked how confident they feel making decisions about financial products and services, where 0 is not at all confident and 10 is very confident		
**% agreeing strongly or slightly with the statement "I would be happy to use the Internet to carry out day-to-day banking transactions"		

As might be expected, older people in retirement are the least likely to have accessed the internet in the past seven days or to say they are happy to bank online. However, compared with the UK, adults in the 55-74 age category were less likely to have accessed the internet in the past seven days (73% in Scotland, 79% in the UK) and to agree they are happy to bank online (40% in Scotland, 54% in the UK). Responses amongst adults in other age categories were similar to the UK. 18-24s and older people in retirement are covered in more detail in the later section: Specific target groups.

Barriers and enablers to key behaviours

The previous sections highlighted that Scotland adults appear more financially capable of managing day to day than at planning for life events. In addition we identified that although some specific groups score noticeably lower, the differences between the lowest- and highest-scoring groups are often not that great. This suggests that while there is some benefit to targeting interventions at specific socio-demographic subgroups, there are broader issues for the wider population. In order to address this, we need to examine some broader questions about what best explains more financially capable behaviour.

As well as providing a map of problem behaviour, the survey aims to function as a diagnostic tool to identify possible barriers or enablers of financially capable behaviour. The next section examines several of these, starting with understanding the effect of income.

- Is regular saving explained by factors other than just income?
- Is the amount people have saved explained by anything other than income?
- Are the factors that explain regular saving different to those that explain holding larger amounts of savings relative to income?
- If we ask people to rate their approach to household budgeting, will the biggest influence be how well they are keeping up with bills and payments?
- What factors explain differences in use of unsecured debt relative to income?
- Is lack of good day to day money management a barrier to achieving other positive outcomes like saving regularly?

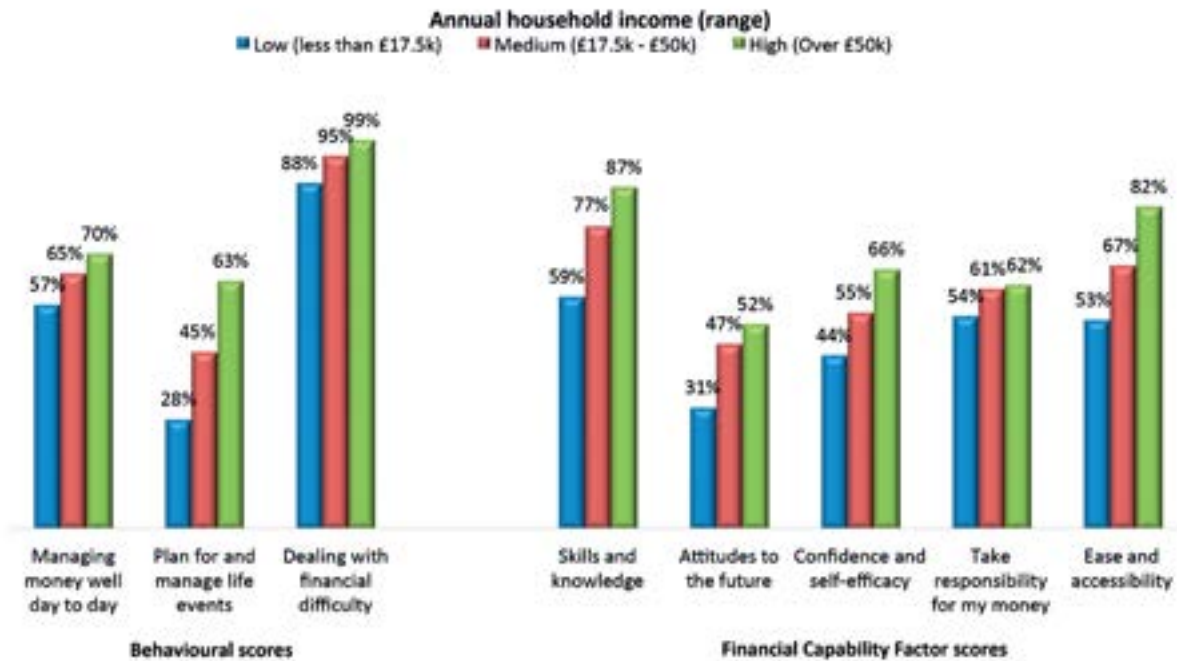
These hypotheses were tested by a combination of Key Drivers Analysis (KDA) and Chi-Squared Automatic Interaction Detection (CHAID). The analysis was conducted at an all-UK level, rather than in Scotland. However, given that responses and patterns in response are so similar between Scotland and the UK, we feel that it is still useful to look at these barriers and enablers here.

We then grouped the KDA results back into the components of the behavioural domains and Financial Capability Factors. There may be a case for rerunning this analysis using composite measures of behaviour and Financial Capability Factors after more work has been done to test and refine the composite measures.

How important is income?

Income is the single variable which might reasonably be expected to be the biggest driver of financially capable attitudes and behaviour. The composite measures discussed earlier do indeed increase with household income, as Chart 6 below (based only on adults in Scotland) shows. From this, it's noticeable that:

- scores do increase with household income;
- the increase with income applies to both the behavioural scores and the Financial Capability Factor scores;
- 'planning for and managing life events' is the behavioural domain that varies most in relation to income, with the steepest gradient between the lowest- and highest-income groups; and
- amongst the Financial Capability Factor scores, 'skills and knowledge' and 'ease and accessibility' and 'attitudes to the future' appear to vary most by income between low-income households and medium/high-income households.

Chart 6: How important is income?

Base: Adults in Scotland (Low income n=447, Medium income n=505, High income n=149)

This prompts the questions:

- is there a simple linear relationship with income? Does financial capability improve at a constant rate with household income?
- or is the relationship with household income more complicated? Are there one or more tipping points in household income above which financial capability increases at a different rate?

These questions are best addressed by looking at some of the key underlying behaviours that make up financial capability. In order to do this we decided to focus on savings frequency and the amount held in savings.

Focus on savings

Regular saving

This section looks at what best explains more frequent saving, and in particular whether more regular saving is explained by factors other than just income.

We identified this as a key behaviour to investigate because of the role savings can play in providing a small short-term buffer against relatively small unexpected expenses or income drops.

In this analysis we have focussed on the working-age population because the circumstances of older people in retirement are likely to be different. In particular, they are much less likely to have dependent children. In addition, older people in retirement tend to have more money in savings than those of working-age. This suggests that, all other things being equal, any possible gain in resilience from encouraging more frequent savings is likely to be smaller for an older person in retirement than for a working-age person.

Savings frequency is collected by asking people how often they save on a scale from every month to rarely/never. In interpreting the data we are making an assumption that regular saving is more desirable than irregular saving or not saving at all.

We needed to examine whether savings frequency follows a linear relationship or whether there are instead tipping points. In order to do this we ran a CHAID model on the UK adult dataset to test our assumption that household income would be the biggest predictor of savings frequency. The results of the CHAID analysis did indeed find household income as the biggest predictor of savings frequency. However it produced a less clear picture about whether there were clear tipping points between different income levels.

Chart 7 shows how frequency of savings varies with household income for people in the working-age population in Scotland. The CHAID did not reveal clear separate groups within income in the UK, but for clarity and because of lower base sizes in Scotland, we have shown results based on three separate income groups

- lowest incomes (below £13,500) – within this group, over half said they save (including irregular savers);
- middle incomes (£13,500 up to £34,999) – within this group 45% said they save monthly, but a further fifth said they rarely or never save; and
- higher incomes (£35,000 or more) – within this group, over half said they save every month, though 1 in 7 still said they rarely or never save.

Chart 7: Savings Frequency by Household Income (Working-Age in Scotland only)

This suggests different objectives for interventions aimed at increasing savings among different income groups:

- lowest incomes – interventions need to encourage more regular and larger savings, but also need to address the group who currently never save;
- middle -incomes – interventions could aim to increase savings amounts among monthly savers, make non-monthly savers save more frequently, and encourage the non-saver group to begin saving; and
- higher incomes – interventions here could mainly focus on encouraging larger amounts of savings among the majority saving monthly, addressing a relatively small group of irregular or non-savers, and improving product choices and use amongst those who are saving regularly.

What else matters apart from income?

However not everything can be explained by income. In one respect, the whole field of financial capability research is the study of what income cannot explain, i.e. why some low-income households manage very effectively day to day but some high-income households do not. Small base sizes in Scotland preclude detailed analysis of this type, so results shown in this section are based on all UK adults.

Having examined the role of income, the next step is to look at what other factors best explain variations in savings. We wanted to answer two questions:

- Aside from income, which one or two demographic factors best predict frequency of savings?
- What is the relative importance of all the different components of financial capability: behaviours, skills, knowledge, attitudes, motivations, 'ease and accessibility'?

Financial Capability Factors as barriers/enablers to regular saving

Having established the importance of income, highest educational qualification and household composition, we also need to understand the extent to which other factors might act as barriers or enablers to financially capable behaviour such as saving.

Table 10 shows the relative importance of various different components of financial capability.³³

³³ We investigated this by running Key Drivers Analysis (KDA) for an outcome variable of frequency of savings. Other survey questions covering behaviours, skills, knowledge, attitudes, motivations, ease and accessibility were included in the model.

Table 10: Key Drivers Analysis of frequency of savings

Grouped topics	Regression Importance	Individual variable – only shown if above 2%
Reasons for saving/ having savings	16%	Reasons for saving <ul style="list-style-type: none"> ■ To pay for planned expenses, purchases or events ■ In case I have to pay for unexpected expenses/ purchases ■ For a rainy day generally ■ In case income changes I only save for a specific purpose
Goals and plans	10%	Whether have financial goals for next five years Extent of plans for financial goals
Attitudes/motivations – attitudes to the future	8%	When it comes to money I prefer to live for today rather than plan for tomorrow - disagree Important to save money for a rainy day Important to put aside money for your retirement
Attitudes/motivations – confidence and self-efficacy	7%	Confidence managing money Disagree with statement – Nothing I do will make much difference to my financial situation Disagree with statement – Thinking about my financial situation makes me anxious
Attitudes/motivations – take responsibility	3%	Discuss household finances openly with anyone Important to Keep track of income and expenditure
Paying into pension	5%	Currently paying into pension(s)
Take control	10%	Think of money in terms of 'pots' put aside for different things Keeping up with bills and commitments – without difficulty, struggle, falling/fallen behind Approach to keeping track of income and expenditure – how well think this works How often normally check how much money is in account
Ease/accessibility	2%	Internet use – active hours of use in last week Confidence making decisions about financial products and services
Skills/knowledge	2%	Number of correct answers at 3 quiz questions
Other	36%	How would pay unexpected bill of £300 Whether have savings account Amount of savings in relation to income Highest educational attainment Whether 'over-indebted' Whether have long-standing physical or mental impairment, illness or disability Others (all below 2%)

35% of the variation in savings frequency is explained by the model.³⁴

³⁴ The model had an R² of 35%, meaning that it explained 35% of the variation in frequency of savings. For this type of outcome variable, this is within the bounds of what represents a reasonable degree of explanation.

The analysis found that more frequent savings were most strongly associated with:

- having specific reasons for saving (especially near-term and positive);
- having goals and plans; and
- future-focused attitudes.

It also found that not taking control over day-to-day finances acted as a barrier to frequent saving.

Based on the survey's measures, the following factors appeared relatively unimportant for the working-age population as a whole:

- 'skills and knowledge'; and
- 'ease and accessibility'.

Looking at the table it is also clear that savings frequency is not something that can be explained solely by other behaviours or mainly by skills, knowledge, attitudes, motivations or 'ease and accessibility'. Instead it appears to be a combination of all of the above.

We also looked at the same analysis for different income groups within the working-age population. This analysis found that although likelihood to save regularly increases with income, the enablers or barriers to saving regularly do not change noticeably (leaving aside income itself).

Savings relative to income

We also wanted to establish the relative importance of different components of financial capability in explaining how much people hold in savings. We were particularly interested to see if the same factors best explain likelihood to save regularly and likelihood to have larger amounts of savings.

In order to make some allowance for the effect of income, the amount of savings that respondents said they held was converted into a number of months of household income. This also made it possible to relate the analysis to the advice position that people should hold an emergency fund of three months' income. Holding the equivalent of three months' income is also one of the variables that make up the resilience component of 'preparing for and managing life events'.

Again we have focused just on the working-age population. Partly this is to keep consistency with the previous discussion about frequency of savings, but older people in retirement are also already much more likely to have savings equivalent to three months income: 43% of older people in retirement in Scotland do so compared with 27% of working-age people in Scotland.

From Chart 8 it is clear that the number of months' income people have saved is linked to their household income.

Chart 8: Savings Ratio by Household Income (Working-Age Only in Scotland)



Are larger savings best explained by the same factors that explained more regular saving?

The following table, which is again based on the Key Driver Analysis conducted amongst UK adults, shows that:

- having more savings relative to income instead appears most explained by having some reasons to save; which include saving for a rainy day, saving for the unexpected and saving for retirement (not in a pension);
- lack of day-to-day money management acts as a potential barrier to both regular saving and having larger amounts of savings relative to income; and
- while some of the important factors are similar, the key differences are that:
 - saving more frequently was associated with future-focused attitudes, but attitudes to the future appear less important when it comes to having a larger amount of savings relative to income; and
 - similarly having financial goals and plans was associated with greater likelihood to save regularly, but it appears less important when it comes to having a larger amount of saving.

Table 11: Key Drivers Analysis of savings to income ratio

Grouped topics	Regression Importance	Individual variable – only shown if above 2%
Reasons for saving/ having savings	25%	For retirement (excluding paying into a pension) For a rainy day generally (Reasons for saving) In case of unexpected expenses/ purchases To pay for planned expenses, purchases or events In case income changes I only save for a specific purpose – disagree I hate to borrow – I would much rather save up in advance
Day-to-day money management	12%	Keeping up with bills/commitments – without difficulty, struggle, falling/fallen behind How often normally check how much money is in account Don't revolve credit card balance or use high-cost-short- term-credit Approach to keeping track of income and expenditure – how well think works How precisely claim to know balance of account Debt to salary ratio
Attitudes/motivations – confidence and self-efficacy	6%	Thinking about financial situation makes me anxious – disagree Confidence managing money
Attitudes/motivations – attitudes to future	4%	When it comes to money I prefer to live for today rather than plan for tomorrow - disagree Important to put aside money for your retirement
Attitudes/motivations – take responsibility	2%	I am too busy to sort out my finances at the moment – disagree
Skills/knowledge	4%	Number of correct answers at 3 quiz questions
Saving frequency	3%	Frequency of saving
Ease/accessibility	3%	Internet use – active hours of use in last week Confidence making financial product or service decisions
Skills/knowledge	2%	Number of correct answers at 3 quiz questions
Goals and plans	2%	Extent to which have plans for financial goals
Other	40%	Whether have savings account Think savings are more than average for people like me How would pay unexpected £300 bill Think borrowings are more than average for people like me Whether 'over-indebted' Ethnicity Sought money information/advice in last year Regularly read financial pages in papers or online Children in household Others (all below 2%)

42% of the variation in savings income ratio is explained by the model.

There are several possible interpretations of the implications that this has for practitioners.

Future focus and goal setting

Having a reason to save is clearly important and gives consumers the incentive to forego the benefits of immediate consumption. However, there are a variety of motivations and their relative importance differs with both the frequency of saving and the value accumulated relative to income. A savings goal, and more of a future focus, seem to encourage people to start saving, even if it is for future consumption.

Interventions might usefully focus therefore on goal-setting, recognising that those who do less well at managing their money may need practical help to realise this goal. Once people start to save regularly then the challenge is to encourage them to turn this into a habit and to save for the sake of savings, rather than to just achieve a goal and spend their accumulated savings. The analysis above shows that those who have saved higher amounts are less likely to be saving for a specific purpose, and instead be saving for retirement or unexpected future events.

Saving for a goal versus saving for a rainy day

The analysis could be seen as supporting the view that there is an important difference between saving for a specific, planned, often short-term goal; and saving for the longer term or for less certain events or expenses. In other words, there is a difference between instrumental and 'rainy day' savers.³⁵ This suggests that there are at least three different productive approaches to savings interventions:

- encouraging people who do not save regularly to start doing so, possibly through use of goals;
- encouraging people who do currently save towards a goal to convert into 'rainy day' savers by continuing to save after the goal is met or by increasing the amount they save each month; and
- increasing the amount saved by regular savers.

In addition, we should note there is the possibility that by basing our behavioural measure of regular saving on people who save most or every month, we may be under representing regular saving. At any given time, some regular savers may not be saving because they are between goals, i.e. they have made the planned purchase they were saving towards and have not yet started saving for their next goal. To some extent the 2015 data supports this view, since only 24% of the working-age population in Scotland say they hardly ever or never save, and 76% say they save every, most or some months.

Focus on borrowing and debt

We asked survey respondents to estimate their total unsecured debt. From this we calculated a debt to income ratio so we could look at whether those with higher ratios of debt to income displayed different behaviours, skills, knowledge, attitudes, motivations or 'ease and accessibility'. Once again, this employed Key Driver Analysis, which was conducted amongst UK working-age adults only.

The table shows the results of the analysis. For simplicity, fewer of the individual variables are shown than in previous tables.

The key finding from this is that there is, perhaps not surprisingly, one clear explanation for higher debt-to-income ratios. The top-rated group of factors all relate specifically to borrowing or debt, and explain 28% of the variation in the debt to income ratio. This reflects a sense that what we are observing here is generally a lot of consequences of high unsecured debt but a lot less in terms of explanations for having high debt.

People with financial goals or plans are likely to have lower debts in relation to their income, but it is not clear which way causality flows in this relationship.

³⁵ Saving in lower-income households: A review of the evidence Kempson, E. and Finney, A. (University of Bristol Personal Finance Research Centre, June 2009) <http://www.bristol.ac.uk/media-library/sites/geography/migrated/documents/pfrc0909.pdf>

Table 12: Key Drivers Analysis of debt to income ratio

Grouped topics	Regression Importance	Individual variables
Related specifically to borrowing/debt	28%	Borrowing more than average – 11% Revolving credit card balance/using high-cost short-term credit – 6% I hate to borrow – I would much rather save in advance – 4% Debt is a heavy burden – 2% Missed three or more payments – 3% Either of previous two – 2%
Goals and plans	12%	Extent to which have plans for financial goals – negatively correlated
Attitudes/motivations	12%	
Reasons for saving/having savings	5%	
Day-to-day money management	9%	
Maximise income	6%	Checked suppliers/tariffs
Skills/knowledge	2%	
Ease and accessibility	8%	
Other	28%	

31% of the variation in debt to income ratio is explained by the model

In some senses this particular piece of analysis reinforces the problems associated with higher amounts of unsecured debt in relation to income. More work is needed to examine the 2015 data and see if it confirms pre-existing hypotheses about triggers and underlying factors.

Focus on money management

We asked respondents to rate how well their approach to keeping track of household income and expenditure works, using a scale where 0 means not at all well and 10 means very well.

Among UK working-age adults a better self-rated score for budgeting technique was associated more with other 'good' behaviours than with positive attitudes. In particular, enablers are:

- having financial goals or plans; and
- to a lesser extent, positive attitudes such as:
 - confidence and self-efficacy; and
 - taking responsibility for one's money.

Lack of control over day-to-day finances is a barrier. In particular the ease or difficulty of keeping up with bills and commitments did appear to be an important factor, but we did also find that people who think of their money in terms of 'pots' for different purposes tended to rate their approach more positively.

The survey shows that neither skills, nor knowledge, nor 'ease and accessibility' come out as big factors for the working-age population as a whole.

As might be expected, people on higher incomes generally tended to give themselves higher ratings, which in itself may be related to their increased likelihood to be keeping up with bills and commitments without difficulty. But the factors associated with giving a higher score did not look especially different when we repeated the analysis for separate income groups.

Specific target groups

As noted earlier, several subgroups emerge as weaker across one or more behavioural domains. In some cases these are the same groups who also score lower within some aspects of the Financial Capability Factors ('skills and knowledge', 'attitudes and motivations', 'ease and accessibility'). This section focuses on each of these groups in turn and, where possible, suggests implications for design and delivery of interventions targeted at these groups.

Young adults

The following section discusses how the behaviours of young adults (18-24 year-olds) in Scotland compared with those of the Scotland working-age population. Table 13 in the appendix shows the full range of scores for these groups across the behavioural domains.

Young adults generally score below the working-age average when it comes to the three behavioural domains.

'Managing money day to day' – overall young adults' behavioural scores (52%) are lower than the working-age population (60%).

Within this there are specific issues for young adults around **budgeting** and **use of credit**.

Budgeting – compared with the working-age population as a whole, 18-24 year-olds are less likely to think their approach to budgeting works very well. The survey asked respondents to rate how well their approach works, using a scale where 0 means not at all well and 10 means very well. Two-fifths (42%) of 18-24 year-olds gave their approach a score of 8-10/10, compared with just over half (56%) of the working age population. Similar patterns are evident in the UK.

Young adults in Scotland are also less likely to say they could pay a £300 bill from savings or their own money without having to cut back (55% of young adults in Scotland said this compared with 66% of working-age adults in Scotland).

By contrast, there appears to be little difference between 18-24 year-olds and working-age adults when it comes to:

- **keeping track** – similar proportions of both groups claim to know their current account balances to within £50 (58% of 18-24 year-olds, 62% of working-age adults)
- **keeping up without difficulties** – again, similar proportions of both groups say they are keeping up with bills and credit commitments (48% of 18-24s, 52% of working-age adults)

Use of credit – 18% of young adults said they revolve credit or use high-cost short-term credit, compared with 23% of working-age adults. However, young adults are just as likely as working-age adults to have unsecured debt equivalent to 1 month or more of their household income (32% of both groups). Similar patterns are evident in the UK as a whole.

Perhaps not surprisingly, **young adults' scores are lower than those for working-age adults on the 'planning for and managing life events' behavioural domain**. However, the biggest differences relate to lower proportions of young adults making current or previous pension contributions (25% of young adults, compared with 53% of working-age adults) or life cover (24% of young adults, compared with 51% of working-age adults). Given their lifestage, perhaps the figures from the 2015 survey are not a concern and the focus for interventions in this space should be on encouraging better preparation for life events among young adults as they begin work, move into their own homes, and start families.

Similar patterns and recommendations were made for the UK sample.

Notably, young adults in Scotland are more likely than working-age adults to say they have financial goals (69% of young adults compared with 56% of working-age adults). Although the proportion of young adults with plans to meet those goals is much lower (39%), it is still slightly higher than amongst working-age adults (36%). Many of the financial goals mentioned by young adults were short-term, such as saving for a holiday or buying a car, reflecting their lifestage. Although 41% of young adults said that they were "saving money generally", young adults in Scotland (25%) are less likely than the working-age average (34%) to think it is very important to save for a rainy day. Interventions targeted at converting goal-based savers into 'rainy day' savers could be of particular relevance for young adults as they progress into work and having families.

When it comes to Financial Capability Factors, young adults score slightly lower than the working-age average when it comes to:

- skills and knowledge – young adults were less likely to know the correct answer for all three questions, particularly comprehension of inflation and buying power (45% of young adults gave the correct answer, compared with 62% of working-age adults);
- confidence managing money (43% young adults, compared with 54% of working-age adults); and
- confidence making financial product and service decisions (27% young adults, compared with 43% of working-age adults); and

Unlike in the UK as a whole, there is not much difference between young adults and working-age adults in Scotland in terms of thinking it's very important to shop around to make their money go further (40% young adults, compared with 42% of working-age adults in Scotland).

Table 14 in the appendix shows the full range of scores for young adults (against working-age adults) for the Financial Capability Factors.

Implications for young adult interventions

These findings suggest there may be a case for interventions targeted at young adults to address a lack of confidence managing money, budgeting, and around financial decisions.

Interventions could also make use of young adults' above average likelihood of open discussions about money (though there are one-fifth of young adults saying they do not openly discuss money with anyone). Almost universal internet use among young adults presents an opportunity for FinTech, especially given that we found 81% of young adults in Scotland have a phone with internet access.

Previous qualitative research with young adults suggests that finding the right messenger could be an important part of designing and delivering successful interventions.³⁶

Older people in retirement

In comparison to the working-age population, older people in retirement in Scotland score well on 'managing money well day to day' and 'dealing with financial difficulty'. They also have higher resilience via savings (see Table 15 in the appendix for full range of scores across the behavioural domains). However, there is a small minority (10%) of older people in retirement in Scotland who still live in a household owned with a mortgage.

There is a more mixed picture on 'planning for and managing life events' – with older people in retirement less likely than working-age adults to have plans and goals in particular. This may suggest that in the next wave of the survey this domain's questions could be more specifically tailored to older people in retirement.

Planning for the cost of long-term care is relatively low amongst both older people in retirement and working-age adults aged 50+. Three out of ten over 50s said they had a plan for how they will pay for any long-term care they might need in old age, and only 4% described this as a very specific. In addition, it is worth noting that our threshold for what constitutes planning is not set at a particularly high level: respondents were judged to have some form of plan if this only extended as far as "I have a very rough idea of what I need to do".

Patterns in results in the UK for the behavioural domains were very similar.

³⁶ It's Time to Talk: Young People and Money Regrets (Money Advice Service, September 2014). https://53b86a9de6dd4673612f-c36ff983a9cc042683f46b699207946d.ssl.cf3.rackcdn.com/mas_money_regrets_online.pdf

Sub-group sizes within the population of older people in retirement in Scotland are too small for detailed analysis, but the following patterns were observed in the UK and are broadly consistent in Scotland:

- the behaviour scores for people aged 75+ are not notably different from the average for older people in retirement. But as we note below, there are more differences when it comes to Financial Capability Factors; and
- amongst older people in retirement, there are noticeable differences in behaviour between low-income households (below £17,500) and medium/higher-income households, with lower-income households less likely to score well on each of the 'managing money well day to day' domain. In particular, those from low-income households were less likely to score their household budget approach 8+ (although low base sizes should be noted). Behaviour scores were very similar in the 'dealing with financial difficulty' domain, but a different pattern is seen in Scotland than in the UK in relation to the 'planning for and managing life events' domain, with little difference by income amongst older people in retirement.

Table 16 in the appendices shows the full range of scores across the Financial Capability Factors for older people in retirement and compares them with the working-age population, but a few key points are noted below:

- older people in retirement generally have more positive attitudes to money, feeling less anxious and more confident managing money. However, they appear less likely to feel empowered as they are less likely to disagree 'nothing they do will make much difference to their financial situation';
- older people are more likely than the working-age population to feel very confident making decisions about financial products and services (60% said they did, compared with 43% of the working-age population). More analysis is needed to establish whether the 2015 data suggest there is a danger of over-confidence;
- more than half (56%) of older people in retirement in Scotland said they used the internet in the last seven days, this is much lower than the almost universal use (93%) amongst the working-age population. In addition, older people were less likely to say that they would be happy using online banking, which may make it more difficult for them to manage their money effectively;
- whilst 'skills and knowledge' increase with age, they decline in the 75+ age group (this group score second lowest (64%, higher only than 18-24s at 62%) of all the age groups for 'skills and knowledge'); and
- older people tend to score lower on most Financial Capability Factors (as well as behavioural domains, as discussed above) if they are in low-income households (below £17,500) than those with higher incomes. The biggest difference is in the 'ease and accessibility' domain.

Similar patterns were observed in the UK.

Implications for older people in retirement

People aged 75+ may have specific needs in terms of the ways that information is presented to them. Potentially this ties in with the need to understand customer experiences from the point of view of vulnerable consumers, as highlighted in recent research for the FCA.³⁷

Internet and access issues – internet access and willingness to use the internet for financial purposes like banking is noticeably lower among older people in retirement and especially among those aged 75+ and on lower-incomes. Future analysis of the data could usefully include looking at access issues based on settlement type in order to establish if, for example, the data suggest that older people in retirement living in rural areas may have particular issues.

³⁷ Rowe, R.; Holland, J.; Hann, A.; Brown, T. Vulnerability exposed: the consumer experience of vulnerability in financial services (Financial Conduct Authority, December 2014). <https://www.fca.org.uk/static/documents/research/vulnerability-exposed-research.pdf>

Benefit recipients and unemployed people

Recipients of benefits being replaced by Universal Credit score noticeably below average on day-to-day money management. These benefits are:

- Income-based Jobseeker's Allowance;
- Income-related Employment and Support Allowance;
- Income Support;
- Child Tax Credit;
- Working Tax Credit; and
- Housing Benefit.

Behavioural scores for this group are shown in Table 19 in the appendix. An additional column shows figures for unemployed people because they were identified earlier in the report as a group with particularly low scores, and because previous research suggests that the negative effect on financial capability of unemployment is major and is not just attributable to the drop in income.³⁸ However, the low base for unemployed people in Scotland (70 people) should be noted. Comparisons are made throughout with the average for the working-age population.

In the 'managing money well day to day' domain both unemployed people and benefit claimants are notably less likely than the working-age average to say they are keeping up with bills and commitments, saving regularly, or have a short term buffer or are using credit sensibly (although the differences are smaller for the latter). Both groups are, however, slightly more likely than the working-age average to say that they know their balance within £50, and have low levels of unsecured debt.

It is, however, notable that resilience scores are particularly low amongst unemployed people (9% compared with 36% amongst working-age adults, although the low base size should be noted) who appear to have a shorter-term horizon in terms of financial goals and planning. Similar patterns were observed in the UK.

A key challenge in designing possible interventions is to attempt to distinguish between which difficulties are an inevitable consequence of being constrained by low-income and which could be mitigated by effective interventions. Examination below of Financial Capability Factors offers some initial thoughts on this, but more work is likely to be needed to understand these issues.

Financial Capability Factors are possible barriers to better day-to-day money management. Compared with the working-age population, confidence managing money and 'skills and knowledge' are lower for both benefits recipients and unemployed people (see Table 20 in the appendix for full Financial Capability Factor scores). This might reflect the fact that people's bandwidth or cognitive load may be decreased by living in conditions of scarcity.³⁹

Access to suitable products may also be a barrier. There is a relatively higher use of prepay for electricity and a low holding of savings accounts amongst both groups. Their levels of internet usage, while high, are lower than the working-age average and it is notable that unemployed people are less likely to say that they would be happy to use the internet for day-to-day banking. They are instead more likely to keep track of incomings and outgoings on paper, which could be as a result of the lower skills, knowledge and digital use just discussed. The very low levels of empowerment amongst claimants and in particular amongst unemployed people are also notable: these may in themselves be linked with their lower scores on the 'managing money well day to day' and 'planning for and managing life events' behavioural domains.

³⁸ Taylor, M. The impact of life events on financial capability: Evidence from the BHPS (Financial Services Authority, September 2009). <http://www.fsa.gov.uk/pubs/consumer-research/crpr79.pdf>

³⁹ Mullainathan, S. & Shafir, E. Scarcity: The New Science of Having Less and How It Defines Our Lives (reprint edn., Picador, November 2014).

Implications for interventions

Transition to Universal Credit presents additional challenges for benefit recipients because of the switch to monthly payment and the requirement for recipients to pay housing costs, rather than having this paid direct.

Based on insight from the 2015 Survey, the Money Advice Service is currently working with the Department for Work and Pensions (DWP) to develop and deliver budgeting and money management support as part of the roll out of Universal Credit. Given the larger proportion using paper to keep track of their incomings and outgoings there could be scope for greater use of mobile technology or apps.

Social housing tenants and private renters

Social housing tenants are another group which may benefit from targeted interventions. In particular the survey found that in comparison to the working-age average (and owner-occupiers) social housing tenants:

- are less likely to save regularly, and have low levels of savings and/or life cover;
- have shorter term horizons, being less likely to have financial goals (and plans to reach those goals), and less likely to disagree that they 'prefer to live for today not plan for tomorrow';
- have lower 'skills and knowledge' and lower levels of confidence and self-efficacy; and
- are less likely to have used the internet in the past seven days or be happy to use it for day-to-day banking.

Whilst private renters seem a different and distinct group in the UK in terms of their financial behaviours and capabilities, the same pattern is not observed in Scotland.

The full range of behavioural scores and Financial Capability Factors are shown by tenure in Table 17 and Table 18 in the appendix.

Conclusions and implications for interventions

Overall the picture is mixed: most people in Scotland appear to be managing their money well day to day but far fewer are preparing well for life events. Many issues appear widespread, rather than concentrated solely in particular groups of the population.

Helping people keep track of their money day-to-day is a building block for saving and preparing for the future. Does this suggest a bigger role for FinTech, particularly among young adults and the middle-income working-age population?

There appear to be different motivations for saving regularly and saving a lot. If we want more people to save we need to recognise that 'a buffer' may not be motivating and should focus on goals. Making saving easier could also help and potentially there is again a role here for FinTech.

Generally having a 'future focus' is a positive – we need to understand how to develop this within the constraints of people's incomes and financial circumstances.

For the population as a whole, 'skills and knowledge' seem less of a barrier than motivation, but there are 'pockets' of low skill, which may need to be addressed.

Successful interventions need to be well targeted and robustly evaluated.

In terms of specific groups of concern:

- we need to recognise that for example, the future Universal Credit client group are less likely to have digital skills and/or confidence. Is there a need to build on current digital inclusion initiatives across Scotland?
- young adults have a tendency to over-use credit and lack both budgeting skills and confidence with money. Attitudes to debt do differ by age cohort. Is there a need for interventions delivered by appropriate messengers?
- people in social housing typically have lower financial capability. This suggests a continued role for interventions via social landlords.

This report contains the initial findings from the 2015 survey. During 2016 we plan to analyse the 2015 data in more detail in conjunction with other data sources. We welcome stakeholder and practitioner suggestions of possible areas for investigation. In particular there is scope to examine:

- greater detail within 'working-age people';
- rural versus urban differences;
- technology use and its relationship to behaviours, attitudes and other components of financial capability;
- the extent to which life satisfaction and satisfaction with financial circumstances can be explained by financial capability;
- whether the importance of budgeting may be over-rated. During the 2015 survey interviews we collected considerable detail about how respondents keep track of and manage their money day to day. From this we might wish to explore in more detail whether certain budgeting approaches are particularly associated with better outcomes in terms of frequency of saving, amounts of savings etc.; and
- debt – there is more we could learn from further analysis of the 2015 data and this could complement the Money Advice Service's ongoing work to profile the characteristics of the UK over-indebted population.

Appendix – Tabulated results for specific target groups

This section includes the tabulated summary results for the specific target groups discussed earlier.

Young adults

Table 13: Young adult behaviours

All in Scotland	18-24s	Working-age
Sample Size	174	885
Managing money well day to day	52%	60%
Take control	41%	52%
<i>Know current account balance to within £50</i>	58%	62%
<i>Approach to keeping track of income/expenditure rated as 8 or more out of 10, where 10 means works very well</i>	42%	56%
<i>Keep up without difficulties</i>	48%	52%
Short-term buffer	52%	60%
<i>Save every/most months</i>	55%	60%
<i>Could pay £300 bill from savings or own money without cutting back</i>	55%	66%
Use credit sensibly	39%	45%
<i>Don't revolve credit card balances or use high-cost-short-term-credit</i>	82%	77%
<i>Unsecured debt⁴⁰ is less than 1 month of household income</i>	68%	68%
Maximise income	75%	82%
Plan for and manage life events	34%	44%
Goals and Plans	55%	46%
<i>Goals</i>	69%	56%
<i>Plan(s) for goal(s)</i>	39%	36%
Resilience	21%	36%
<i>Savings are 3 or more months of household income</i>	23%	27%
<i>Life cover</i>	24%	51%
Prepare for retirement	25%	50%
<i>Paying to pension (working) or previously paid into pension (if not working)</i>	25%	53%
<i>Long-term care – specific/rough plan (only answered by 50+)</i>	n/a	29%
Dealing with financial difficulty	90%	91%
<i>Keeping up with bills a burden (disagree)</i>	93%	92%
<i>Fallen behind with bills / payments (not)</i>	87%	90%

Some percentages rebased to exclude not applicable, missing values such as don't know and refusals

⁴⁰ Debt-to-income ratio is based on an estimate of unsecured debt that includes student loans. But only 56% of this age-group are currently in education or graduates, and they do use other forms of unsecured credit.

Table 14: Young adult Financial Capability Factors

All in Scotland	18-24s	Working-age
Sample Size	174	885
Skills and knowledge	62%	72%
Calculate balance after interest added	62%	69%
Reading balance on bank statement	79%	84%
Comprehension of inflation and buying power	45%	62%
Attitudes to the future	33%	41%
Prefer to live for today not plan for tomorrow (disagree)	46%	47%
Save for rainy day – very important	25%	34%
Put aside for retirement – very important	28%	41%
Confidence and self-efficacy	43%	50%
Confidence managing money	43%	54%
Financial situation makes anxious (disagree)	35%	41%
Nothing I do will make much difference (disagree)	50%	54%
Take responsibility for my money	55%	58%
Keep track of household income & expenditure – very important	48%	52%
Shop around money go further – very important	40%	42%
Often buy on impulse (not like me)	68%	78%
Too busy to sort finances	55%	60%
Discuss money openly with anyone	80%	76%
Adjust non-essentials when life changes (lot like me)	36%	41%
Ease and accessibility	64%	68%
Confident making financial product / service decision	27%	43%
Internet use	100%	93%
Happy to use internet for day-to-day banking	66%	68%

Some percentages rebased to exclude not applicable, missing values such as don't know and refusals.

Older people in retirement

Table 15: Older people in retirement – behaviours

All in Scotland	Older people in retirement	Working-age
Sample Size	216	885
Managing money well day to day	69%	60%
Take control	69%	52%
<i>Know current account balance to within £50</i>	68%	62%
<i>Approach to keeping track of income/expenditure rated as 8 or more out of 10, where 10 means works very well</i>	78%	56%
<i>Keep up without difficulties</i>	82%	52%
Short-term buffer	68%	60%
<i>Save every/most months</i>	58%	60%
<i>Could pay £300 bill from savings or own money without cutting back</i>	85%	66%
Use credit sensibly	60%	45%
<i>Don't revolve credit card balances or use high-cost-short-term-credit</i>	95%	77%
<i>Unsecured debt⁴¹ is less than 1 month of household income</i>	91%	68%
Maximise income	81%	82%
Plan for and manage life events	30%	44%
Goals and Plans	21%	46%
<i>Goals</i>	21%	56%
<i>Plan(s) for goal(s)</i>	20%	36%
Resilience	35%	36%
<i>Savings are 3 or more months of household income</i>	43%	27%
<i>Life cover</i>	45%	51%
Prepare for retirement	34%	50%
<i>Paying to pension (working) or previously paid into pension (if not working)</i>	n/a	53%
<i>Long-term care – specific/rough plan (only answered by 50+)</i>	27%	29%
Dealing with financial difficulty	98%	91%
<i>Keeping up with bills a burden (disagree)</i>	99%	92%
<i>Fallen behind with bills / payments (not)</i>	97%	90%

Some percentages rebased to exclude not applicable, missing values such as don't know and refusals

Table 16: Older people in retirement – Financial Capability Factors

All in Scotland	Older people in retirement	Working-age
Sample Size	216	885
Skills and knowledge	68%	72%
Calculate balance after interest added	64%	69%
Reading balance on bank statement	79%	84%
Comprehension of inflation and buying power	61%	62%
Attitudes to the future	42%	41%
Prefer to live for today not plan for tomorrow (disagree)	54%	47%
Save for rainy day – very important	36%	34%
Put aside for retirement – very important	37%	41%
Confidence and self-efficacy	59%	50%
Confidence managing money	71%	54%
Financial situation makes anxious (disagree)	64%	41%
Nothing I do will make much difference (disagree)	40%	54%
Take responsibility for my money	59%	58%
Keep track of household income & expenditure – very important	58%	52%
Shop around money go further – very important	34%	42%
Often buy on impulse (not like me)	79%	78%
Too busy to sort finances	71%	60%
Discuss money openly with anyone	67%	76%
Adjust non-essentials when life changes (lot like me)	43%	41%
Ease and accessibility	48%	68%
Confident making financial product / service decision	60%	43%
Internet use	56%	93%
Happy to use internet for day-to-day banking	27%	68%

Some percentages rebased to exclude not applicable, missing values such as don't know and refusals.

Housing tenure

Table 17: Housing tenure – behaviours

All in Scotland	Own outright	Mortgage	Private renter	Social renter
Sample Size	241	335	155	271
Managing money well day to day	72%	64%	59%	50%
Take control	70%	55%	51%	48%
<i>Know current account balance to within £50</i>	63%	61%	61%	68%
<i>Approach to keeping track of income/ expenditure rated as 8 or more out of 10, where 10 means works very well</i>	80%	60%	53%	52%
<i>Keep up without difficulties</i>	83%	56%	47%	46%
Short-term buffer	73%	67%	56%	43%
<i>Save every/most months</i>	65%	66%	54%	41%
<i>Could pay £300 bill from savings or own money without cutting back</i>	87%	73%	62%	51%
Use credit sensibly	62%	44%	44%	43%
<i>Don't revolve credit card balances or use high-cost-short-term-credit</i>	92%	68%	75%	88%
<i>Unsecured debt is less than 1 month of household income</i>	88%	57%	67%	85%
Maximise income	85%	89%	85%	67%
Plan for and manage life events	38%	56%	37%	24%
Goals and Plans	28%	52%	49%	26%
<i>Goals</i>	29%	62%	62%	31%
<i>Plan(s) for goal(s)</i>	26%	42%	37%	21%
Resilience	44%	49%	23%	18%
<i>Savings are 3 or more months of household income</i>	61%	34%	20%	8%
<i>Life cover</i>	52%	73%	31%	30%
Prepare for retirement	41%	67%	38%	27%
<i>Paying to pension (working) or previously paid into pension (if not working)</i>	65%	75%	39%	21%
<i>Long-term care – specific/rough plan (only answered by 50+)</i>	26%	30%	19%	27%
Dealing with financial difficulty	98%	94%	86%	87%
<i>Keeping up with bills a burden (disagree)</i>	98%	94%	86%	89%
<i>Fallen behind with bills / payments (not)</i>	97%	94%	86%	86%

Some percentages rebased to exclude not applicable, missing values such as don't know and refusals.

Table 18: Housing tenure – Financial Capability Factors

All in Scotland	Own outright	Mortgage	Private renter	Social renter
Sample Size	241	335	155	271
Skills and knowledge	78%	82%	73%	50%
Calculate balance after interest added	74%	78%	69%	49%
Reading balance on bank statement	87%	92%	86%	65%
Comprehension of inflation and buying power	73%	74%	62%	37%
Attitudes to the future	49%	44%	42%	28%
Prefer to live for today not plan for tomorrow (disagree)	61%	52%	49%	29%
Save for rainy day – very important	37%	37%	33%	29%
Put aside for retirement – very important	48%	44%	44%	24%
Confidence and self-efficacy	63%	55%	49%	41%
Confidence managing money	73%	58%	52%	55%
Financial situation makes anxious (disagree)	67%	43%	42%	36%
Nothing I do will make much difference (disagree)	49%	63%	54%	32%
Take responsibility for my money	63%	61%	60%	52%
Keep track of household income & expenditure – very important	60%	54%	62%	43%
Shop around money go further – very important	37%	46%	36%	37%
Often buy on impulse (not like me)	86%	76%	82%	77%
Too busy to sort finances	74%	66%	58%	52%
Discuss money openly with anyone	72%	76%	80%	72%
Adjust non-essentials when life changes (not like me)	48%	47%	40%	30%
Ease and accessibility	59%	75%	72%	45%
Confident making financial product / service decision	62%	51%	41%	42%
Internet use	75%	97%	96%	60%
Happy to use internet for day-to-day banking	40%	78%	78%	33%

Some percentages rebased to exclude not applicable, missing values such as don't know and refusals.

Benefit recipients and unemployed people

Table 19: Benefit recipients and unemployed people – behaviours

All in Scotland	Unemployed people	People on benefits transitioning to Universal Credit	Working-age
Sample Size	70*	250	885
Managing money well day to day	45%	52%	60%
Take control	40%	48%	52%
<i>Know current account balance to within £50</i>	77%	71%	62%
<i>Approach to keeping track of income/expenditure rated as 8 or more out of 10, where 10 means works very well</i>	38%	50%	56%
<i>Keep up without difficulties</i>	35%	39%	52%
Short-term buffer	32%	44%	60%
<i>Save every/most months</i>	30%	44%	60%
<i>Could pay £300 bill from savings or own money without cutting back</i>	43%	48%	66%
Use credit sensibly	39%	41%	45%
<i>Don't revolve credit card balances or use high-cost-short-term-credit</i>	93%	81%	77%
<i>Unsecured debt is less than 1 month of household income</i>	80%	75%	68%
Maximise income	69%	76%	82%
Plan for and manage life events	20%	29%	44%
Goals and Plans	34%	37%	46%
<i>Goals</i>	48%	45%	56%
<i>Plan(s) for goal(s)</i>	21%	28%	36%
Resilience	9%	18%	36%
<i>Savings are 3 or more months of household income</i>	3%	10%	27%
<i>Life cover</i>	17%	27%	51%
Prepare for retirement	16%	33%	50%
<i>Paying to pension (working) or previously paid into pension (if not working)</i>	17%	27%	53%
<i>Long-term care – specific/rough plan (only answered by 50+)</i>	20%	36%	29%
Dealing with financial difficulty	79%	82%	91%
<i>Keeping up with bills a burden (disagree)</i>	78%	82%	92%
<i>Fallen behind with bills / payments (not)</i>	79%	82%	90%

Some percentages rebased to exclude not applicable, missing values such as don't know and refusals.

* caution, low base

Table 20: Benefit recipients and unemployed people– Financial Capability Factors

All in Scotland	Unemployed people	People on benefits transitioning to Universal Credit	Working-age
Sample Size	70*	250	885
Skills and knowledge	49%	53%	72%
Calculate balance after interest added	42%	52%	69%
Reading balance on bank statement	66%	68%	84%
Comprehension of inflation and buying power	40%	40%	62%
Attitudes to the future	20%	25%	41%
Prefer to live for today not plan for tomorrow (disagree)	18%	32%	47%
Save for rainy day – very important	21%	21%	34%
Put aside for retirement – very important	20%	22%	41%
Confidence and self-efficacy	34%	39%	50%
Confidence managing money	44%	48%	54%
Financial situation makes anxious (disagree)	24%	31%	41%
Nothing I do will make much difference (disagree)	33%	37%	54%
Take responsibility for my money	50%	51%	58%
Keep track of household income & expenditure – very important	41%	41%	52%
Shop around money go further – very important	35%	37%	42%
Often buy on impulse (not like me)	82%	70%	78%
Too busy to sort finances	42%	48%	60%
Discuss money openly with anyone	67%	73%	76%
Adjust non-essentials when life changes (not like me)	33%	36%	41%
Ease and accessibility	48%	51%	68%
Confident making financial product / service decision	32%	33%	43%
Internet use	81%	75%	93%
Happy to use internet for day-to-day banking	33%	46%	68%

Some percentages rebased to exclude not applicable, missing values such as don't know and refusals.

* caution, low base

Notes

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