Financial Literacy, Capability and Well-Being

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Developments over the past 10-15 years

Financial literacy → Financial capability → Financial well-being
Financial literacy

Traditional approach

Focus on knowledge and (more recently) skills
- and belief that financial literacy can be taught

Normative approach
- a single score
- but no consensus about how to measure

Critique

Knowledge and skills should not be seen as an end in their own right

Primary concern should be consumer behaviour
- The evidence of the impact of knowledge on behaviours is mixed

Behaviour is largely influenced by factors that can’t be taught:
- in-built behavioural biases
- beliefs and social norms
- and also by the environment
Financial capability

The approach

Developed in the UK and adopted by Canada and others
Focuses on behaviours & the factors that influence them
  ◦ Including ‘environmental’ as well as individual factors
Empirical approach
  ◦ Not a single concept
  ◦ But a number of (loosely unconnected) behaviours
  ◦ Agreement about how these should be measured
Behaviours are driven mainly by attitudes and personality
So less amenable to formal education

Critique

We don’t know which behaviours are most important or why
The analysis confounds capable behaviours and outcomes
So what is financial well-being?

Extensive qualitative research shows that it is:

◦ the capacity to meet current commitments, comfortably
◦ and the resilience to maintain this in the future

ie it is a set of financial ‘outcomes’

And it is determined by the interplay of a range of factors, including

◦ behaviours
◦ knowledge and skills
◦ attitudes, motivations and behavioural biases
◦ but also a range of ‘environmental’ and economic factors
Definition of financial well-being

Being able to meet all one’s current commitments and needs comfortably
and having the financial resilience to maintain this in the future
Conceptual model of the determinants of financial well-being

- Socio-economic environment
- Knowledge & Experience
- Financial attitudes & confidence
- Financially capable behaviours
- Financial well-being
International measurement of financial well-being, capability and literacy

Survey developed in Norway in 2016-17
- Most recent survey late 2017

Questionnaire includes questions to capture all the boxes in the conceptual model:
- 4 measures of financial well-being
- 8 behaviours
  - *Money use*: spending restraint, active saving, restrained consumer borrowing, not borrowing for daily living expenses
  - *Money management*: budgeting, keeping track of money, informed decision-making and active product choice
- 5 aspects of knowledge and experience of money matters
- 5 personality traits, plus financial attitudes, financial confidence and financial locus of control
- A range of socio-economic variables
International measurement of financial well-being, capability and literacy

Identical survey undertaken in Canada in 2018
And also in Australia, New Zealand and Ireland in 2018
Some of the questions also incorporated into the UK 2018 survey

So we have a wealth of internationally comparable data...
... with some fascinating and valuable findings!