

# Financial Literacy, Capability and Well-Being

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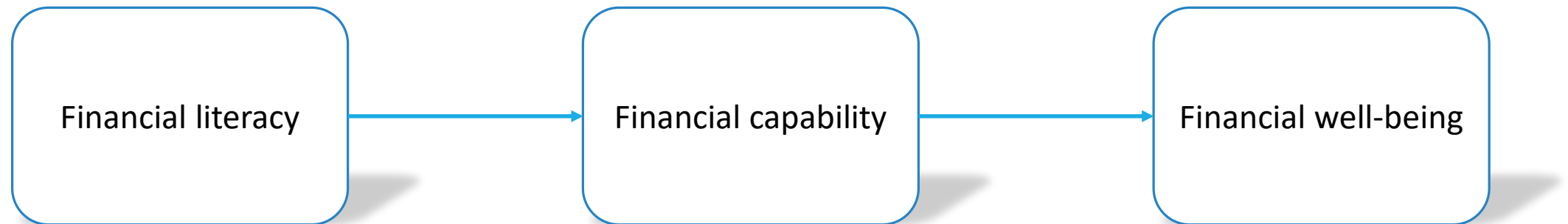
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## Developments over the past 10-15 years

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# Financial literacy

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## 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

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## 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?

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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

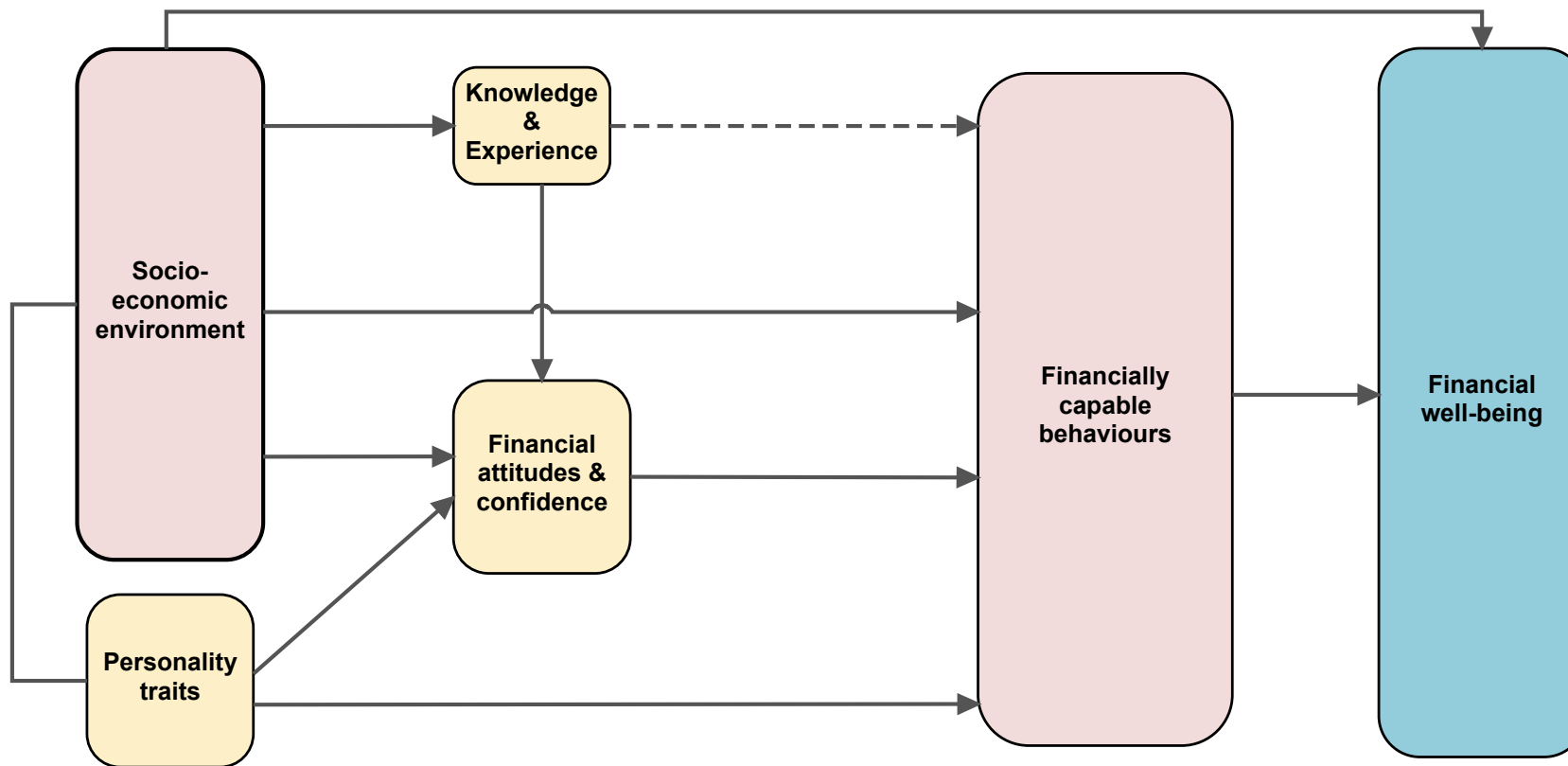
- behaviours
- knowledge and skills
- attitudes, motivations and behavioural biases
- but also a range of 'environmental' and economic factors

# Definition of financial well-being

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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



# International measurement of financial well-being, capability and literacy

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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

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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!