

Institution: University of Essex
Unit of Assessment: 19 – Business and Management Studies
Title of case study: Improving financial capability and wellbeing in Britain
<p>1. Summary of the impact</p> <p>Between 2008 and 2011 Essex researchers were funded by the Financial Services Authority (FSA) to investigate the determinants and effects of an individual's 'financial capability'. Since 2010 the results of this research have informed Money Advice Service initiatives, under the direction of the FSA, to increase the financial capability of people negotiating significant life events. The research has also raised awareness among mental health providers and policy makers of the benefits that financial management skills have in building resilience and improving wellbeing. In particular, the Money Advice Service used the team's findings to develop an online service for people experiencing divorce/separation and a redundancy guide for people faced with job loss. The research also influenced the current government's policy objectives surrounding wellbeing and child poverty.</p>
<p>2. Underpinning research</p> <p>From 2008 to 2011 a team of Essex researchers conducted a series of investigations into the factors that contribute to individual-level financial capability, and into the effects of financial capability on wellbeing. The research was undertaken in four separate projects funded by the Financial Services Authority (FSA) as part of their National Strategy for Financial Capability. This Strategy involved collaboration between the financial services industry, government agencies, and the education and voluntary sectors, and was designed to improve UK consumers' understanding of personal finance and enhance their abilities to make well-informed financial decisions. The aims of the four commissioned projects were to:</p> <ul style="list-style-type: none"> (i) Construct a viable measure of financial capability, and investigate the impact of financial capability on psychological wellbeing (ii) Identify the key determinants of a person's financial capability (iii) Investigate how financial capability affects savings behaviour (iv) Identify the longer-term impacts of having high and low financial capability on a range of other outcomes. <p>The research was carried out between 2008 and 2011, and was undertaken by Professor Mark Taylor (PI), Professor Stephen Jenkins (left Essex 2010) and Professor Amanda Sacker. All research was based on statistical analysis of data from the British Household Panel Survey (BHPS).</p> <p>Project (i) first constructed an indicator of financial capability relating to two key concepts – making ends meet and money management. Panel-data estimation methods were used to assess the impact of financial capability on individuals' psychological health, independent of the impacts associated with income, financial resources and financial shocks more generally. The research found that low financial capability has substantial psychological costs over and above those associated with low income or deprivation. High financial capability is associated with higher levels of psychological health, which suggests that improving people's financial management skills would have substantial effects on stress-related illnesses and outcomes associated with such problems. Furthermore, low financial capability increases the psychological costs associated with being divorced or unemployed, while high financial capability reduces the psychological impacts associated with these states (see Taylor et al. 2009; 2011).</p> <p>Project (ii) showed that the key determinants of financial capability include age, health, household size and structure, housing tenure, and the employment status of the individual and other household members. Hence people have particular observable characteristics that determine their financial capability, and which would allow the appropriate policies, advice and help to be targeted</p>

Impact case study (REF3b)

to those most in need. People with such characteristics are likely to struggle to manage credit and debt efficiently and should be the main target of suitable financial awareness and advice initiatives (see Taylor 2009; 2011a).

Projects (iii) and (iv) examined the impact of financial capability on savings behaviour, and its longer-term impacts on psychological health, savings and labour market outcomes. This research concluded that higher financial capability is associated with a higher savings incidence and saving a larger amount per month and proportion of income per month. Furthermore, increases in financial capability are associated with a higher probability of saving and with increases in the amount and proportion of income saved (Taylor 2010). Having low financial capability at a particular point in time is a major predictor of having low financial capability in the future, while it also has statistically significant impacts on people's future life satisfaction, lifestyle, propensity to save and to save regularly, and household income. These latter effects remain even when allowing for contemporaneous financial capability (Taylor 2011b).

The research therefore indicates that improving people's current financial management skills will not only have immediate effects on their psychological wellbeing, but also have longer lasting effects on their mental health, living standards, savings behaviour and household income. Hence the benefits of programmes that promote financial capability, and particularly people's ability to make ends meet and manage their money, may reach beyond the more immediate into the medium to long-term. At the same time, our evidence suggests that the failure to help improve the financial management skills of individuals at the bottom of the financial capability distribution may have longer-term impacts across a number of different domains.

3. References to the research

- Taylor, M.P., Jenkins S.P., and Sacker A. (2009) Financial capability and wellbeing: Evidence from the BHPS, *Financial Services Authority Occasional Paper 34*, London.
<http://www.qmu.ac.uk/copa/forums/Financial%20Awareness%20Forum%20docs/Financial%20capability%20and%20well%20being.pdf>
- Taylor, M.P. (2009) The impact of life events on financial capability: Evidence from the BHPS, *Financial Services Authority Consumer Research Series number 79*, London.
<http://hb.betterregulation.com/external/Consumer%20Research%2079.pdf>
- Taylor, M.P. (2010) Financial capability and saving: Evidence from the BHPS, *CFEB Consumer Research Report 02*. London: The Consumer Financial Education Body. [Available from HEI on request]
- Taylor, M.P. (2011a) Measuring financial capability and its determinants using survey data, *Social Indicators Research*, 102 (2), 297–314. DOI: 10.1007/s11205-010-9681-9
- Taylor, M.P. (2011b) The long term impacts of financial capability: Evidence from the BHPS, *CFEB Consumer Research Report 03*. London: The Consumer Financial Education Body. [Available from HEI on request]
- Taylor, M.P., Jenkins S.P., and Sacker, A. (2011) Financial capability and psychological health, *Journal of Economic Psychology*, 32 (5), 710–723. DOI: 10.1016/j.joep.2011.05.006

Research funding – Total £87,375:

- M. Taylor, A. Sacker, and S. Jenkins; *Wellbeing and Financial Capability*; Financial Services Authority; 1/12/08 – 31/8/09; £39,150
- M. Taylor and S. Jenkins; *Financial Capability and Savings Behaviour*; Financial Services Authority; 1/12/08 – 31/8/09; £15,900
- M. Taylor; *The Longer-Term Impacts of Financial Capability*; Financial Services Authority; 1/12/09 – 31/3/10; £27,125
- M. Taylor; *The Relative Contributions of Household Income and Financial Capability*; Financial Services Authority; 21/3/11 – 31/5/11; £5,200

4. Details of the impact

This research has influenced the design of programmes and interventions implemented by the Money Advice Service, an institution set up by the FSA to implement the National Strategy for Financial Capability. The research has also informed the focus of its campaigns and materials since it was established in 2010. It has also had a wider impact on policy strategy and policy debate.

In terms of programme and policy interventions, the Money Advice Service has developed specific, targeted initiatives to help people through life events that the research has shown to affect both people's financial capability and wellbeing. For example, our research shows that maintaining financial capability through divorce or unemployment reduces the psychological impact of these events on wellbeing. A member of staff within Corporate Policy & External Affairs at the Money Advice Service wrote in 2012 that Essex research has 'underpinned our approach to developing targeted initiatives to help people through key life events' [corroborating source 1]. To this end, the Money Advice Service has, amongst other things, developed an online service for people going through divorce or separation and a redundancy guide for people faced with job loss [corroborating source 2], as well as factsheets used with stakeholders/partners, including the Mental Health Network of the NHS Confederation on the link between financial capability and wellbeing. Taylor's work has been recognised at the highest levels within the Money Advice Service, which is demonstrated by the numerous references to his research in speeches made in 2010 and 2011 by senior members of staff, including the Chairman and Head of Consumer Affairs, Strategy and Evaluation [corroborating source 3].

The research has been instrumental in the Money Advice Service's work with the mental health sector and has helped to emphasise why providing assistance with money management should be part of a wider strategy aimed at improving mental health and wellbeing. The Money Advice Service used the findings from the research as the basis of their consultation response to the Office for National Statistics in 2012 on the proposed domains and headline indicators for measuring national wellbeing [source 4]. This response explicitly refers to Mark Taylor and his research publications (Taylor et al. 2009; 2011). Taylor et al. (2009) is also cited in the Money Advice Service's 'Managing Money and Mental Health' briefing (2011) for the NHS Confederation, which was circulated to all mental health trust chief executives and commissioners, as well as Primary Care Trust commissioners [source 5]. This document encourages NHS staff to support service users by asking people about any financial difficulties when assessing them.

The Money Advice Service used the research on financial capability and wellbeing as the basis for their submission to the Marmot Review of health inequalities. In November 2008, Professor Sir Michael Marmot was asked by the then Secretary of State for Health to chair an independent review to propose the most effective evidence-based strategies for reducing health inequalities in England from 2010. The resulting report, *Fair Society – Healthy Lives* (2010), cites Taylor et al. (2009) in relating the impacts of low income on psychological health [source 6]. The research is also referenced in the Government's mental health strategy *No Health Without Mental Health* (2011), which outlines their objectives to achieve better mental health and wellbeing and the interventions needed [corroborated by sources 1 and 7]. This states that individuals can improve their own mental health and that financial insecurity is strongly associated with poor mental health – this directly emerges from Taylor's research.

The research has had an impact outside the field of health, and in particular it aided the Money Advice Service's involvement in tackling child poverty. The national strategy document *A New Approach to Child Poverty: Tackling the Causes of Disadvantage and Transforming Lives* (2011) explicitly acknowledges the importance of money management and cites Taylor (2009) [source 8]. The research into the relationship between financial capability and saving contributed to the evidence base in the area of simple financial products. For example, the Sergeant Review was set up by Government to initiate the development of a suite of simple financial products aimed at

Impact case study (REF3b)

helping consumers navigate the financial services market. The Interim Report, published in August 2012, cites Taylor et al. (2011) and Taylor (2010) [source 9].

The research has also generated considerable engagement with policy-makers and other organisations. For example Taylor was invited to give a seminar on Financial capability, financial shocks, and psychological wellbeing at the Essex Health Improvement Forum on 'Recession and Health' in 2010. The EHIF helped to facilitate and influence the development and co-ordination of Public Health practice and learning across Essex. This seminar drew heavily on the research published in Taylor et al (2009; 2011) [source 10]. In 2011 Taylor was invited to address a meeting of the Intergenerational Futures All Party Parliamentary Group in Parliament to discuss financial capability and attitudes towards saving [source 11]. Members of this Group include MPs and Peers, as well as external organisations including Age Exchange, Age UK, The Age and Employment Network, The Beth Johnson Foundation, The British Youth Council, The Family and Parenting Institute, The Joseph Rowntree Foundation, The National Children's Bureau, The Prince's Trust, The Young Foundation, and Working Families. The talk was based on research published in Taylor (2010).

5. Sources to corroborate the impact [All sources saved on file with HEI, available on request]

1. Staff member, Corporate Policy & External Affairs at the Money Advice service
2. MAS guides on divorce and redundancy:
<https://www.moneyadvice.service.gov.uk/en/tools/divorce-and-separation-calculator>
<https://www.moneyadvice.service.gov.uk/en/articles/out-of-work-checklist-things-to-do-if-you-lose-your-job>
3. References to research (and research findings) in speeches made in 2010 and 2011 by Chairman of Money Advice Service (Gerard Lemos) and Head of Consumer Affairs, Strategy and Evaluation (Amanda Bowe). Available online:
<https://www.moneyadvice.service.gov.uk/en/static/speeches-and-presentations>
4. Money Advice Service response to ONS in 2012 available online:
https://www.moneyadvice.service.gov.uk/files/consultation_jan12_of.pdf
5. NHS Confederation *Briefing Issue 212* (January 2011): 'Managing money and mental health'. Available online:
<http://www.nhsconfed.org/Publications/briefings/Pages/Managing-money-and-mental-health.aspx>
6. *Fair Society – Health Lives: The Marmot Review* (2010). This document (p. 76) cites Taylor et al. (2009).
<http://www.instituteofhealthequity.org/projects/fair-society-healthy-lives-the-marmot-review>
7. HM Government (2011) *No Health without Mental Health: A cross-government mental health outcomes strategy for people of all ages*. See: pp. 18-21.
http://www.dh.gov.uk/prod_consum_dh/groups/dh_digitalassets/documents/digitalasset/dh_124058.pdf
8. HM Government (2011) *A New Approach to Child Poverty: Tackling the Causes of Disadvantage and Transforming Lives 2011*. This document (p. 32) cites Taylor (2009).
<https://www.education.gov.uk/publications/eOrderingDownload/CM-8061.pdf>
9. *Sergeant Review of Simple Financial Products: Interim Report* (2012). This document (pp. 9 & 10) cites Taylor et al. (2011) and Taylor (2010).
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/191730/sergeant_review_simple_financial_products_interim_report.pdf
10. Programme from the EHIF seminar (09.03.10) at which Taylor spoke.
11. Minutes from the Intergenerational Futures All Party Parliamentary Group are available online: <http://www.centreforip.org.uk/england/intergenerational-futures-all-party-parliamentary-group/programme-of-meetings>