



Handling money properly

*Backgrounds with the competences for
financial empowerment*

Nibud, 2012

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1 Motivation

National Institute for Family Finance Information (Nibud) informs and advises households on their finances. Nibud's mission is: *Improving financial empowerment of consumers in the area of household finance*. Thus prevention of financial problems is one of Nibud's spearheads.

Financial problems can arise from a convergence of circumstances. In *Kans op financiële problemen* ('Likelihood of financial problems', Madern and Van der Schors, 2012), 35 percent of the respondents said that their payment arrears were due to unexpected (high) expenses; a quarter of the respondents said a reduction in income was the reason for their arrears. However, a person's behaviour can also often lead to financial problems. From the same study one can deduce that more than a third of the respondents could have paid in time, but that this was not their first priority (Madern and Van der Schors, 2012).

Behaviour evidently plays an increasingly important role in the risk of financial problems arising. For this reason, Nibud can no longer exclusively base its information and recommendations on the 'technical' aspect of handling money: drawing up a budget, keeping track of potential financial problems, seeing to it that the payments are in order. Nibud therefore also studies the behaviour of its target group.

Behaviour related to handling money properly is nothing new to Nibud. Among other things, a background as a developer of teaching materials inspired Nibud to study competences for properly handling money in 2006. These competences were first listed in *Geld en gedrag: begeleiding voor de beroepspraktijk* ('Money and behaviour: a guide for professional practitioners', 2008). Since that time, competences have been the basis of much of Nibud's educational materials. Over the course of time, the competences have been regularly supplemented and adjusted, and teaching objectives were formulated for children and young people of various ages. Competences for handling money properly are also defined in publications from other organisations. An example is the *SchuldPreventiewijzer* (Debt Prevention Guide) of The Money Wise Platform.

The result of all these developments is that a continuously increasing number of statements are based on competences. This requires a general description and elaborated support for the competences for properly handling money. This was the reason for Nibud to write this report.

These newly defined competences will form the basis of Nibud's information and recommendations to all consumer groups. In addition, the competences are also ready for use in the professional field. For example, in the near future a debt assistance provider can run through a checklist in the consultation room, which he can use to study what his client does and can do as far as money is concerned.

Finally, the newly defined competences have been elaborated in such a way that it is easier to use them to define how well a person is able to manage his finances. According to Nibud, a person is financially empowered if he makes well-considered choices in such a way that his finances are balanced, both in the short and long term.

The competences will be used as input for studies on the income and expenses of all kinds of groups in society. Nibud involves the financial behaviour of the respondents in these types of studies increasingly often. In order to measure behaviour and corresponding skills objectively, it is important that the competences are described in such a manner that they are as mutually exclusive as possible.

2 Competences described as skills

Financial problems often (in part) arise due to a person's behaviour. In *Kans op financiële problemen* ('Likelihood of financial problems', Madern and Van der Schors, 2012), 34 percent of the respondents said that they could have paid, but that the obligation had escaped their attention.

There are many theories on how behaviour and habits are formed, each with its own line of approach and focus. One of the best known and most frequently used is the Theory of Planned Behaviour (Ajzen, 2011; Van Geuns et al., 2011). According to this theory, one has to examine the intention of a person to carry out certain behaviour in order to predict a person's behaviour: behaviour intention. The general rule is: the stronger the intention, the greater the chance that a person will carry out that certain behaviour.

Behaviour intention is determined by three factors:

1. the person's attitude towards his behaviour, in which his personal characteristics and attitude play a role;
2. other people's opinions of the behaviour and social pressure;
3. appraisal of one's own options for actually being able to carry out the behaviour: perceived behavioural control (Ajzen, 2011).

Thus a person's behaviour is chiefly controlled by his intention to carry out a certain behaviour. In order to carry out said behaviour, he requires possession of the necessary skills, however, and must believe that he can carry out this behaviour (the perceived behavioural control).

Thus we describe the competences in terms of skills in this report. From *Kans op financiële problemen* ('Likelihood of financial problems', Madern and Van der Schors, 2012), it is also evident that the lack of skills increases the risk of financial problems. Respondents with payment arrears often update the administration less often, save important papers less carefully and have less of an overview of their income and expenses. 45 percent of the respondents who did not have their administration in order said they were unable to do it. This is a sign of the lack of skills.

Van Geuns et al. (2011) also conclude that to a significant degree, skills determine the extent to which the client can adapt his behaviour. They have used the Theory of Planned Behaviour as a model in a study on client profiles in debt assistance provision. Van Geuns et al. (2011) conclude that there are many clients in debt assistance provision that do indeed have the motivation to adapt their behaviour, but lack the sufficient requisite skills. Studies on skills often merely examine whether a person does something (keeps books, for example) and not whether or not he is capable of doing something. However, studying whether somebody does something does not prove anything about his skills. After all, a person can have different reasons for not doing something. If he does not keep any books, it may be because he has more than enough income so that keeping books is not an immediate necessity. It could be the case, however, that the person does not know how to keep books. In that case, he lacks the appropriate skills.

The question in this context is also whether not keeping books is an indication of financial problems. This does not necessarily have to be the case for the above-mentioned reason (the person has sufficient income). Worse still: the fact that a person does keep books could on the contrary be an indication that he has financial problems at that time. After all, keeping books is the first important step towards solving financial problems.

3 Connecting with international developments

Organisations outside the Netherlands also study behavioural change in the context of financial empowerment. One of the best known is the Financial Services Authority (FSA): an independent organisation that regulates financial service provision in the United Kingdom. The FSA was founded by the British government and determines which requirements the financial service provision must meet. The FSA also determines what measures financial institutions are faced with when they do not meet these requirements.

One of the FSA's tasks is to educate consumers on how to handle money. To accomplish this, they drew up the Adult Financial Capability Framework (FSA, 2006). The competences described therein are classified into five domains:

1. making ends meet
2. keeping track
3. planning ahead
4. choosing products
5. staying informed

The Nibud competences correspond to this classification. This allows us to make better use of the results of international studies on financial empowerment, and to compare the results of Dutch studies with those of international studies. Moreover, the FSA has a great deal of experience with competences in the area of financial empowerment and in the Netherlands the models of Wijzer in Geldzaken (The Money Wise Platform) are based on this, for example.

4 The competences

The competences are described in this chapter.

4.1 Purpose of the competences

The competences describe the skills a person must have to call himself financially empowered. Nibud describes the concept of financial empowerment as follows:

A person is financially empowered if he makes well-considered choices in such a way that his finances are balanced, both in the short and long term.

4.2 Target group competences

The competences apply to all adult residents of the Netherlands. In principle, the goal is for everyone to have the skills described in the competences. We explicitly add 'in principle' since there are groups in society that can hardly or not at all be expected to have the skills. For those groups (among others), the main group 5 includes the competence that a person is capable of consulting the right agency or service provider in the event of financial questions or problems. This way we obviate the possibility of certain groups' not being able to become financially empowered.

Besides, possession of the skills does not mean that everyone always has to show the corresponding behaviour. One can think of some very good reasons why a person would not keep track of his income and expenses every month, or not be thinking about the return and risk of various loans. For example, someone can make ends meet comfortably or has absolutely no need for a loan. Even so, it is important that everyone has the skills described in the competences. The idea behind this is that a person must be capable of keeping track of his income and expenses and of comparing the return and risk of various loans to each other. After all, anyone could end up in a situation in which his income is suddenly reduced. And in that case it is indeed important that he keeps track of his income and expenses. In other words: at that moment it is important that he does show the behaviour for which the skill is required.

4.3 The competences

The competences are as follows:

1. Keeping track

The consumer has an overview that provides insight into the options for keeping his finances balanced.

The consumer is capable of:

- generating an income at the social minimum;
- applying for subsidies, compensation and bonuses;
- keeping his financial administration in order;
- processing financial correspondence effectively and correctly;
- managing a bank and savings account;

- checking bills, allowances, incoming and outgoing payments for correctness;
- ascertaining his net income;
- drawing up an overview of his annual income and expenses;
- calculating what amount he needs (monthly) for his necessary expenses;
- calculating what amount he has left over (monthly) for expenses for which he has choices;
- drawing up an overview of his average income and expenses per month;
- drawing up an overview of his possessions and debts.

2. Sensible spending

The consumer spends his income in such a way that his household finances are in balance in the short term.

The consumer is capable of:

- monitoring his daily expenses;
- meeting his payment obligations;
- setting priorities in his expenses on the basis of necessity;
- using his non-monthly additional income effectively;
- developing criteria for the price/quality ratio of products;
- being assertive in resisting advertisements, social pressure, etc;
- adjusting his purchasing behaviour to the budget available;
- detecting financial deficits;
- drawing up an overview of his payment arrears;
- solving financial problems;
- appealing to his rights as a consumer;
- using objection and appeal procedures.

3. Looking ahead

The consumer is aware that desires and events have financial consequences in the medium and long term and gears his current expenses to this.

The consumer is capable of:

- assessing whether he has sufficient income to continue to meet his obligations in the event of (planned or unplanned) desires and events;
- having a positive net equity available for (planned and unplanned) high expenses;
- sensibly absorbing possible (planned and unplanned) high expenses in the medium and long term by means of saving or borrowing;
- assessing which insurances are necessary, desirable or mandatory in his situation;
- thinking up measures that will enable him to absorb a reduction in income due to (planned and unplanned) changes in circumstances in future;
- taking action so that the household finances remain balanced in the event of (planned and unplanned) desires and events.

4. Choosing financial products deliberately

The consumer chooses financial products on the basis of budget considerations and personal suitability as well as whether they are appropriate to his personal household situation.

The consumer is capable of:

- comparing return and risk of different types of financial products to each other;
- assessing financial products for cost and return, maturity time and conditions for acceptance and exclusion;
- calculating whether premiums, interest and redemption for financial products are within the budget.

5. Possessing sufficient knowledge

The consumer has all relevant knowledge to put and keep his household finances in balance in the short, medium and long term.

The consumer is capable of:

- consulting information sources on financial subjects;
- consulting the right agency or service provider for financial questions or problems;
- assessing which concepts in financial service provision apply to him;
- making the necessary calculations for management of his household finances;
- assessing what his rights and obligations are as a consumer;
- making a rough assessment of whether, and to what extent any changes in financial regulatory requirements and developments in the financial market apply to him;
- making a rough assessment of which social security schemes apply to him.

5 Literature

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