**Tackling Poverty through improved Financial Capability**

## Introduction

This chapter sets out the evidence gathered to understand better the role that financial capability plays in tackling poverty in allowing individuals and households to manage whatever resources and income they have, optimally. The focus of the chapter is on financial capability, as distinct from financial inclusion. Financial capability is one element of financial inclusion. Financial inclusion has 2 components:

i) Consumers need access to appropriate financial services.
ii) Consumers need to have the skills, knowledge and motivation (financial capability) to make the most of the financial services and products.

This chapter explores point (ii) only. The Consumer Financial Education Body developed the following domains of financial capability:

- Making ends meet
- Keeping track of your finances
- Planning ahead
- Choosing financial products
- Staying informed about financial matters

There is also a supply-side aspect of financial capability - financial macro-structures need to be in place to enable increased financial inclusion and capability.

Whilst the aim of this work is to focus on the lowest 3 income deciles, 2 things should be noted in this respect:

- Financial capability applies to everyone in Scotland. This is important to increase financial resilience in the case of (for example) someone losing their job – and preventing them from ending up living in poverty;
- The evidence in this chapter does not focus solely on the lowest 3 income deciles. Most of the available evidence explores the impact of financial capability on poverty in general (particularly those living in poverty and those at risk of poverty) or on the wider population (from which some conclusions can be drawn about those in poverty). Those on the lowest incomes are the most adversely affected because they lack the financial resources needed to cope with the results of financial decisions.

## Methods

This chapter presents the findings from three linked pieces of work:
a) Evidence review
b) Development of a logic model
c) Analysis of Family Resource Survey data

### a) Evidence review

A review of the evidence exploring how financial capability can contribute to tackling poverty was commissioned via the call-off contract and conducted by Napier University Employment Research Institute. The main aim of the evidence review was to:

- review evidence about how financial capability impacts on tackling poverty. While considering the Scottish experience (paying particular attention where possible, to those in the L3 and those in low income families) the evidence review will also take account of substantive work from elsewhere, with a view to exploring more fully the options for tackling poverty under the current devolved settlement.

The evidence review does not explore the impact of low income on capacity to (for example) save and have a pension, which may not be possible if income is very low. Financial decisions made by people who receive very low income are not necessarily decisions they would make if they had more financial resources but this does not mean that they don't have the skills and knowledge to make the best decisions. They may only have limited options available to them. Financially capable individuals with higher income can save more and can therefore be more resilient to shocks such as loss of income. Although adopting the principles of financial capability can help lift people out of poverty, where people have very low incomes they are more likely to be bound by the limited products available to them and less likely to be able to afford to save.

The overall conclusion from the review is that increasing financial capability can be used as a way in which to tackle poverty. The evidence reviewed draws attention to factors that need to be considered when implementing financial capability strategies:

- Education and advice needs to be targeted at life events and life stages across the life course and be relevant to individuals' needs and circumstances.
- In order to be effective financial education and advice needs to address an individual's attitudes and motivations.
- The barriers low income groups face accessing financial products and services need to be tackled.

**b) Logic model**

Two logic modelling workshops were held with a range of organisations represented, including:

Scottish Government: Financial Inclusion
Scottish Government Education Directorate: Schools ICT, Arts, Science and Literacy
Learning and Teaching Scotland: Scottish Centre for Financial Education
Consumer Financial Education Body
Citizens Advice Scotland
Greater Easterhouse Money Advice Project Financial Education Programme
Glasgow Council Financial Education Officer
Money Advice Scotland
West Lothian Credit Union
Scotland's Colleges Programme
Chartered Institute of Housing
Scottish Federation of Housing Associations
Child Poverty Action Group
Capital Credit Union
Apex Scotland
South Lanarkshire Council

The **aim** of the workshop was to develop a logic model, setting out how financial capability can contribute to tackling poverty. The main areas for discussion in the workshop were to agree a definition of financial capability, agree the reach of the logic model (i.e. who the logic model should refer to) and the short, medium and long term outcomes.

The logic model illustrates the discussions that took place in the workshops. The model sets out key relevant financial capability activities and related anticipated short, medium and long term outcomes that would lead to the overall outcome of tackling poverty in the 3 lowest income deciles.

**The lowest 3 income deciles**

Statistics from Family Resources Survey show that people in the lowest 3 income deciles are less likely to have a current account than those in the other income deciles (table 1) and are more likely to be behind with bills than those in other income deciles (table 2):

*Table 1*

**Whether adults in Scotland have a current account by whether they are in the lowest three income deciles**

| Adult current account held | Not in the bottom three income deciles | In the bottom three income deciles | Total |
|---|---|---|---|
| No current account | 9% | 23% | |
| Has a current account | 91% | 77% | |
| Total | 2,910,000, | 1,150,000 | 4,060,000 |

Source: Family Resources Survey 2008/9

Table 2

**Families which were behind with a household bill by whether they're in the bottom 3 income deciles: Scotland**

| | not in the bottom three income deciles | in the bottom three income deciles | Total |
|---|---|---|---|
| Not behind with a bill | 96% | 84% | |
| Behind with a bill | 4% | 16% | |
| Total | 1,970,000 | 880,000 | 2,850,000 |

- Source: Family Resources Survey 2008/9

## Evidence review

### Background

Financially included consumers have: access to appropriate financial products and services; and the financial capability to use these financial products and services effectively (Scottish Executive, 2005; Transact and the Resolution Foundation, 2009). This brief review considers evidence from Scotland and elsewhere concerning how financial capability impacts on tackling poverty as it relates to disadvantaged groups (paying particular attention, to those in the lowest 3 decile income groups and those in low income families) in Scotland and elsewhere, subject to the time constraints of the project. The review considers options for tackling poverty through increased financial capability under the current devolved settlement. The methods used are set out in Appendix 1.

Specifically, the review considers: what is financial inclusion and capability; the links between low financial capability and poverty; and ways to tackle poverty through improved financial capability. Conclusions and recommendations from the evidence considered are then set out. The review was commissioned by the Scottish Government and undertaken by the Employment Research Institute, Edinburgh Napier University.

This evidence review forms part of a stream of work being conducted on behalf of the *Tackling Poverty Board*[1], to hand over to its successor, which aims to illustrate how the Scottish Government is tackling poverty. This body of work will pull together a range of evaluative evidence, set within a coherent framework of logic models, which establish an agreed path towards anti-poverty outcomes. The ambition is to map the story of progress, building evidence of what works in Scotland and elsewhere. The ambition of the work is therefore to set direction. However, additional and useful insights are likely to be generated in terms of identifying evidence and data gaps, underpinning principles of success and failure and case study exemplars.

In *Achieving Our Potential: A Framework to Tackle Poverty and Inequality in Scotland* the Scottish Government made a commitment to maximise income for all by addressing the structural barriers that prevent people from prospering are removed (Scottish Government, 2008: 3). The Scottish Government's strategy is moving from creating products and services for the financially excluded, to focusing upon a preventative approach which ensures that people have the skills to use these products and services effectively (Scottish Government Financial Inclusion Team, 2010). In August 2010 the Scottish Government published a discussion paper and evidence review on financial capability as the starting point for development of a more co-ordinated policy. The aim is to achieve greater co-ordination and impact in the extensive financial capability work already under way by developing a consistent policy on financial capability to guide the Scottish Government's own activity and influencing and supporting Community Planning Partnerships (CPPs) and Local Authorities to promote, integrate and coordinate financial capability work in their areas. The target group for this work is those at greatest risk from the impact of poor financial decisions, or at risk of financial crisis without some form of intervention.

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[1] The role of the Tackling Poverty Board (TPB) is to review policy and practice to reduce poverty in Scotland in the light of the additional challenges and opportunities created by the economic downturn and the developing experience of the Scottish Government's performance framework and concordat with local government.

At the UK level, in 2010 the Consumer Financial Education Body (CFEB) was set up by the Financial Services Authority (FSA) to take responsibility for financial education. CFEB has a broad scope that, for example includes providing the *Moneymadeclear* website which offers advice about financial products and services (CFEB, 2010a; Moneymadeclear, 2010; Scottish Government Financial Inclusion Team, 2010).

**Financial Inclusion and Financial Capability**

This section defines key terms that provide the framework for this review: financial inclusion and financial capability. It locates financial capability in the broader framework of financial inclusion; as well as considering the evidence that indicates that it is the most vulnerable and often the most deprived members of society who are likely to lack financial capability.

Financial inclusion can be conceptualised as having 2 components:

- Consumers need access to appropriate financial services.
- Consumers need to have the skills, knowledge and motivation to make informed financial decisions and manage money effectively (financial capability) and so to make the most of the financial services and products.

By acknowledging the role of skills and education it can be argued that it is not only those who lack access to mainstream financial services (e.g. those on low incomes) that may become financially excluded. However, it is those on the lowest incomes who are the most adversely affected by financial exclusion because they lack the financial resources needed to cope with the results of poor financial decision making (Hayton et al., 2007; Mitton, 2008).

Financial exclusion can be defined as:

*"a state where individuals cannot access the financial products and services that they need"* (Transact and the Resolution Foundation, 2009: 1).

Tackling financial exclusion has been an important focus of policy and research in the UK for over a decade as a result of: bank branch closures and other changes to the financial infrastructure, especially in low income areas; the lack of products and services that meet the needs of those on low incomes (e.g. simple low cost bank accounts to allow low income people to pay by direct debit and so get discounts on electricity etc.); and the targeting of products and services away from low income groups. As a consequence some communities have found it increasingly difficult to access mainstream financial services and products (Leyshon and Thrift, 1995; Speak and Graham, 2000; Willis et al., 2001; Fuller and Mellor, 2008).

**What is financial capability?**

Financially capable consumers are able to effectively manage their finances; plan ahead; efficiently select financial products and understand these products; know where, and how, to seek financial advice; and have the motivation to efficiently manage finances and effect change (Atkinson et al., 2006; Financial Services Authority, 2006; HM Treasury 2007; McQuaid and Egdell, 2010).

HM Treasury defines financial capability as:

> *"people's knowledge and skills to understand their own financial circumstances, along with the motivation to take action. Financially capable consumers plan ahead, find and use information, know when to seek advice and can understand and act on this advice, leading to greater participation in the financial services market."*
> (HM Treasury 2007: 19)

Not only do financially capable consumers need to have access to, and have the skills to understand, financial products and information; they need the motivation to act on this (Dixon, 2006; Mandell and Klein, 2007; de Meza et al., 2008; Oehler and Werner, 2008).

Elsewhere definitions of financial capability have been developed in order to demonstrate that it comprises of interlinked domains. The *Financial Capability Survey* proposes that financial capability comprises of 4 domains - managing money, planning ahead, choosing products and staying informed (Financial Services Authority, 2006; Atkinson et al., 2006, 2007). For example, The *Adult Financial Capability Framework* (Basic Skills Agency and Financial Services Authority, 2006: 4) argues that financial capability comprises of - financial knowledge and understanding; financial skills and competence; and financial responsibility.

The current review draws upon McQuaid and Egdell's (2010) conception of financial capability which is derived from these definitions. They argue that a financially capable consumer is able to effectively address:

- The day to day management of finances
- Planning ahead (for specific issues such as retirement or unexpected events)
- Efficiently selecting financial products and understanding these products
- Knowing where, and how, to seek financial advice
- Having the motivation to efficiently manage finances and effect change.

There is also a supply-side aspect of financial capability - financial inclusion and capability are not only focused on the individual (Marshall, 2004) – but needs to include the genuine availability of, and appropriate information on, suitable products and services for people to choose from. Financial macro-structures need to be in place to enable increased financial inclusion and capability. This might include stricter regulation to protect consumers or simpler and more accessible bank accounts (Sinclair et al., 2009). Government has sought to improve the regulation and the supply of suitable financial services, such as cheap basic bank accounts; affordable credit; and face-to-face advice (HM Treasury, 2004). Although the control of access to suitable financial services are in the main under the jurisdiction of the UK Government, this review considers aspects of this supply-side of financial capability in the context of the devolved settlement.

<u>Who lacks financial capability?</u>

While a lack of financial capability can affect anyone, some groups are more affected than others. Research commissioned by the Financial Services Authority highlights that financial capability is not correlated with income. People across society require financial management skills to be in control of their money, regardless of how much money they have. Although financial management is important at any time, in the current economic downturn, reaching a wide swathe of the population is even more vital, as an increasing number of people find themselves in difficult financial situations (FSA 2009). The Financial Services Authority (FSA) conducted the *Financial Capability Survey* in order to establish a baseline measure of financial capability. The study compiled a dataset comprising of 5,328 individuals aged 18 years and over (Financial Services Authority, 2006; Atkinson et al., 2006; Atkinson et al., 2007). Findings from the *Financial Capability Survey* indicate that the groups most likely to have low financial capability are (Financial Services Authority, 2006; Atkinson et al., 2006; Atkinson et al., 2007):

- younger people
- those on low incomes
- those with children
- those with poor levels of education, literacy and numeracy

McQuaid and Egdell (2010) conducted an analysis of the *Scottish Household Survey* (SHS) 2005/6 data and Scottish Government data to give an indication of the distribution of some financial aspects related to financial capability in Scotland. The SHS 2005/6 data provide people's answers to the question: *"How the household is managing financially these days"*

Table 1: *"How the household is managing financially these days"*

| | |
|---|---|
| Geography | Overall, households across Scotland are facing problems in managing their finances, although this is concentrated more among those living in the most deprived 15% of areas |
| Age | Those aged 18-25 and 26-35 years old are generally worse off |
| Gender | There are relatively few differences between males and females |
| Ethnic Group | Non-white ethnic groups do poorly[2] |
| Employment and income status | Those on low incomes[3], in routine or semi-routine occupations, working part-time, the unemployed and the disabled/long-term ill are not coping financially |

[2] Care should be taken as these results hide large differences between different non-white ethnic groups, but numbers are generally too low to analyse all ethnic groups
[3] Under £10,000

The SHS also asks respondents if *"they or their partners have any savings or investments"*.

Table 2: Do *"they or their partners have any savings or investments"*

| | |
|---|---|
| Geography | Those living in the most deprived 15% of areas in Scotland are more likely to have no savings compared to those in the less deprived areas |
| Age | Younger people, especially those in more deprived areas, are more likely to have no savings |
| Gender | Females were slightly more likely to have no savings |
| Qualifications | Those with no or low educational attainment are more likely to have no savings |
| Employment status | The unemployed and those seeking work; the permanently sick and those looking after home and family often have no savings, especially in the more deprived areas |

The *Financial Capability Survey* and the SHS highlight that younger people, those on low incomes, those with children and those with poor levels of education are most likely to have low levels of financial capability. For each of these groups in Scotland those living in the most deprived areas are more likely to be managing poorly financially and to have no savings.

<u>Links between Low Financial Capability and Poverty</u>

Having defined financial capability in the context of financial inclusion this section considers the links between low financial capability and poverty. The evidence presented highlights that the links between low financial capability and poverty are not clear cut. Weight needs to be given to the context in which financial decisions are made. Low income households may be making decisions, and coping in the best they can, against the backdrop of low income and lack of access to mainstream financial products and services.

**Individuals may find it hard to make ends meet because of a lack of resources**

The evidence suggests that the unemployed and those who lack a bank account are generally good at budgeting but can find managing on a low income to be difficult because of the lack of resources (Financial Services Authority 2006; Ben-Galim and Lanning, 2010). This can be exacerbated by lack of access to financial products and the 'poverty premium' on some services (e.g. pre-payment electricity schemes were more expensive than payment by direct debit).

**Individuals may not have be able to access mainstream financial products and services**

Individuals may not be able to access mainstream financial products and services because of issues of geographical access, a lack of income or because mainstream financial services do not meet their needs.

The Financial Inclusion Taskforce, (2010b: 4) uses the Family Resources Survey (2007/2008) to identify that those on low incomes who may lack a bank account:

- 80% of the unbanked fall in the bottom four income deciles
- 64 % of the unbanked are from single person households
- 17% of the unbanked are lone parents
- 46% of the unbanked are unemployed
- 67% of the unbanked live in social housing

Individuals may not open or be able to hold a bank account for a number of reasons. They may lack identification documents, such as a passport, as they are too costly to apply for (Harris et al., 2009). Un-discharged bankrupts may not be able to open bank accounts and only 2 banks in the UK (Barclays and the Cooperative Bank) have accounts available to un-discharged bankrupts (Herbert and Finnegan, 2010). Those living in certain areas of the UK may not be able to access branches of these banks. For example, Barclays list only 18 retail branches across Scotland and 8 in Northern Ireland (Barclays Corporate, 2010).

The lack of a bank account can create problems when making everyday financial transactions. 89% of workers receive their pay through their bank account and by 2018 this is predicted to rise to 95% (Payments Council, 2010: 5). Therefore the unbanked may have to use the accounts of family members in order to receive their wages (Herbert and Finnegan, 2010). This entails a high level of trust. The unbanked also face a ‘poverty premium’ when accessing certain goods and services as they cannot access discounts available to those who pay using direct debits and they cannot make use of online payment options (Harris et al., 2009; Financial Inclusion Taskforce, 2010b; Gibbons, 2010).

Those on low incomes may also face difficulty accessing credit from mainstream financial services and have to use high-cost credit providers[4]. Individuals may be excluded through the credit scoring databases used by mainstream providers as a result of a poor credit history. Door step money lenders use more tacit means of information collection using face-to-face encounters to rate the credit worthiness of customers, and often keep databases about customer behaviour (Kempson et al., 2000; Leyshon et al., 2004; Leyshon et al., 2006). The needs of those on low incomes may not be met by mainstream financial services as they may only want to borrow small amounts for short periods of time. Doorstep money lenders are more flexible, operate using cash, offer low value loans and are more tolerant of customers who default on their repayments (Leyshon et al., 2004; Collard and Kempson, 2005; Sinclair et al., 2009; Financial Inclusion Taskforce, 2010c; Office of Fair Trading, 2010).

**Individuals may not be able to make well informed critical choices about appropriate products and may be paying more for goods and services**

The costs of loans from high-cost credit providers compared to the amount borrowed are very high because of the way in which they are structured and administered (Leyshon et al., 2004; Collard and Kempson, 2005; Leyshon et al., 2006; Office of Fair Trading, 2010). The Financial Inclusion Taskforce (2010c: 16), drawing on information on current demand of high cost credit from trade bodies, company annual reports and assessments of market size by analysts, show that the typical annual percentage rate (APR) of home credit is between 275%

[4] Pawn-broker, payday and other short term small sum loan providers, home credit and rent-to-buy credit providers (Office of Fair Trading, 2010).

and 500%. With a typical loan size of £300, the cost of the credit can be £85 per £100 borrowed[5].

Although doorstep money lenders may be a ‘rational’ choice for some households because of a lack of the appropriate services and products offered by mainstream financial providers, they may not be able to manage the repayments if they experience a loss in income e.g. as a result of redundancy (Ben-Galim and Lanning, 2010). On the other hand customers may not consider the longer term implications of taking out these loans and may not be aware of the savings they could make by shopping around for alternative products (Office of Fair Trading, 2010) or be thinking about what they could do with the money they save. Some young people may grow up not questioning the high rates of interest charged by doorstep money lenders and loan-sharks (Atkinson, 2005). Some may find it difficult to resist high pressure sales techniques (Ben-Galim and Lanning, 2010). The rapport that may be built up through the regular visits from doorstep money lenders constantly reminds the customer of the financial products that they can purchase; and they may enter a cycle of debt if they purchase more and more financial products (Leyshon et al., 2004; Leyshon et al., 2006). More generally the use of credit has become a societal norm and individuals may have difficulty resisting offers of credit. Individuals may be unable to keep up with repayments if there is a sudden change in their circumstances (Dearden et al., 2010; Elliott, 2005). People may also make decisions based on previous experiences, for example they may choose not to have a bank account because they have had problems managing an account in the past.

**Households may fall into debt because of ‘shocks’ (e.g. a faulty washing machines, burglaries, redundancy or relationship breakdown) they do not have the resources to cope with**

Poor money management is widely linked to debt and is an increasing problem in the UK. At the end of June 2010 Bank of England's debt figures indicated that UK personal debt amounted to £1,457bn. Average household debt is ~ £8,650 excluding mortgages and ~ £57,809 including mortgages (Credit Action, 2010). Data from the *Consumer Credit Counselling Service* about their clients shows that although debt levels are falling, there has been a rise in the number of their clients owing 66 times their income (CCCS, 2010). The effects of this drop in household income are widespread, with some having to cut back on essentials in order to meet their repayments (Gillespie et al., 2009).

Evidence reviewed highlights that shocks or trigger events are the main cause of households falling into debt[6]. These include everyday occurrences, such as a faulty washing machine, and/or a fall in income through redundancy, relationship breakdown, ill health and poor financial management (Disney et al., 2008; Green. 2009; Ben-Galim and Lanning, 2010). These shocks and trigger events can have cumulative effects, affecting employment status, health and well being and ability to manage household finances (Disney et al., 2008; Dearden et al., 2010).

It is mostly a lack of insurance and savings that makes low income households especially vulnerable to financial problems following these shocks or trigger events as they lack a safety net. Low income households may not be able to afford to take out home content insurance;

[5] The Scottish Household Survey (2006-09) asked questions about sources of borrowing, including loan from: a finance company, like Provident; a money lender or 'tally man'; or a pawn broker. However, the sample sizes are generally small at a sub-Scottish level.

[6] It must also be recognised that debt can also occur when circumstances do not change. For example a loan may be taken out with the expectation that income will rise due to a job promotion, but this does not occur (Mawhinney, 2010: 18).

insurance providers may not target those living in low income areas; and the way in which premiums are collected may not suit the needs of these consumers. Low income households may not own many expensive goods and therefore feel that insurance is not necessary. However, if these goods ever need replacing households lack the safety net of insurance and may find it difficult to access credit (Hood et al., 2009; Lindsay, 2010). The Pitt Review (2008: 144) conducted in the wake of the extensive floods in the UK in summer 2007 cites Association of British Insurers data that estimates that the average insurance payout made because of the floods fell between £15,000 and £45,000, with the average household insurance premium being £339. Some local authorities did support those who lacked insurance, but these payments were only for a few hundred pounds.

In the UK low cost contents insurance is available to tenants in social housing through insurance with rent and other schemes. For example: Glasgow Housing Association offers a home contents insurance scheme with rent to its tenants (Glasgow Housing Association, no date). Bristol City Council and South Ayrshire Council offer schemes to its tenants where minimum sums insured are low (£6,000 for those aged over 60 years and £9,000 for other age groups) and premium payments can be made fortnightly (Bristol City Council, 2010; South Ayrshire Council, 2010). However, uptake may be low due to apathy or lack of marketing. Others may be aware of the importance of contents insurance but still not purchase it (Hood et al., 2009; Lindsay, 2010).

There are strong links between debt and stress, which can have an impact on both mental and physical health. The Scottish Poverty Information Unit conducted a literature review on the health benefits of financial inclusion and found that the main message from across the studies reviewed related to the benefits from advice in terms of improved mental health, reduced stress or anxiety and better quality of life (Dobbie and Gillespie 2010).

**Individuals may not be making plans for the future e.g. making non retirement saving and saving for retirement**

The literature suggests that non retirement saving is not a priority for low income groups and that rates of saving increase with income (Hellebrandt et al., 2009)[7]. Saving can be difficult for those on low incomes and the repayment of existing debts may be prioritised (Stewart, 2009; Ben-Galim and Lanning, 2010). Patterns of saving may also be different with low income households saving in ‘alternative’ and sporadic ways (Kempson and Finney, 2009). For example, lower income households may save for a specific purpose and then use all of the money (Kempson et al., 2000; Ben-Galim and Lanning, 2010).

Saving for retirement may not be a priority. Individuals may have a short term outlook (e.g. because of current financial pressures) and retirement income may only become a more pressing issue as individuals get older, but the time left to start saving will have decreased (Phua and McNally, 2008; Clark et al., 2009). This affects abilities to manage in later life with those who planned for retirement experiencing higher levels of wealth (Lusardi and Mitchell, 2007). Office for National Statistics data show that in the UK in 2007/08 pensioners with private pensions were more likely to be from higher income groups and those without private pensions from lower income groups. Further to this, in 2007/08 approximately 2 million pensioners were living in poverty[8], although this is a marked a fall

[7] Khan (2010) suggests that owning assets can increase an individual’s willingness to engage with financial services.
[8] Using the measure of 60% of equivalised contemporary median income after housing costs.

from 2.9 million pensioners living in poverty in 1998/99 (ONS, 2010). Data from the Association of British Insurers Savings and Protection survey (Q2 2010)[9] indicate that only 55% of the total workforce is saving adequately for their retirement in a pension (O'Neill, 2010). Few consumers may actively seek advice about pension issues and in depth research with 45 financial intermediaries providing advice at a local level highlights the importance of attitudes of family and peer groups, media coverage and the level of the State Pension in encouraging consumers to make private pension provision (Kempson and Collard, 2005):

**Individuals may be compromising their employability**

Unemployment has been linked to financial capability; with the unemployed having fewer resources to make ends meet than those in employment (Financial Services Authority, 2006; Clark and Aynsley, 2008). Becoming unemployed has been found to increase financial problems by 63% (controlling for changes in income levels) (Taylor, 2009: 75). However, *"cause and effect are difficult to ascertain owing to the complex nature of entrenched social exclusion"* (Clark and Aynsley, 2008: 4). Clark and Aynsley (2008: 16) speculate that there are likely to be a range of intersecting issues that need to be considered: good levels of education for example could lead to an individual having higher financial capability and employability. This would be reinforced by securing employment. Unemployment can affect younger people especially hard through reduced earnings and career progression through stress, increased susceptibility to illness and depression and difficulty in finding work (see Hammarström and Janlert, 2002; Gregg and Tominey, 2004, 2005; Bell and Blanchflower, 2009: 13-19).

Once unemployed, people may find it hard to meet debt repayments. People may not be able to make the most of work opportunities as they may not have the money to pay for transport and smart clothing in order to attend interviews, thus constraining the scope of the job search. Those with a poor credit history may not be able to access loans from mainstream financial services in order to set up a business (Gibbons, 2010). Also their lack of financial skills may influence their ability to compare career options effectively. Poor financial capability can also have an impact on an individuals ability to sustain new employment, making the transition from benefits to earned income and coping with the costs of working and possibly also becoming liable for debts which were frozen while on benefits.

Those in work can suffer the consequences of a lack of financial capability with financial stress being linked to absenteeism from work (Kim and Garman, 2003; Kim et al., 2006). Due to a lack of household insurance individuals may not be able to take up home based work as their employers may require that any equipment is insured, while others may be fearful about leaving their homes (Speak and Graham, 2000). A 2009 FSA study concludes that there is a strong association between financial capability and psychological wellbeing and also between changes in financial capability and changes in psychological wellbeing. The report concludes that greater financial incapability is associated with greater mental stress, lower reported life satisfaction, and a greater likelihood of reporting health problems associated with anxiety or depression (FSA 2009).

**The effects of a lack of financial capability may be felt by the wider community**

[9] ABI Savings and Protection survey Q2 2010 was conducted online by YouGov Financial Services on 18-20 May 2010 with 2,825 adults from Great Britain aged between 18 and 70 years (O'Neill, 2010).

A lack of financial capability not only influences the individual but affects, and is affected by, their wider family and social networks. Families, friends and neighbours are often an important source of information about financial decisions (Kempson et al., 2000) and can shape attitudes towards the importance of financial products and services, as outlined in the discussion on doorstep lending/high cost credit (see page 12). Analysis of the Family Resource Survey (1997/1998) and the monthly Office of National Statistics Omnibus Survey identified that a person's social networks influenced their use of financial services. It was found that all, or some members of the social network of persons who did not have a bank, building society or post office account, did not use these services either (Meadows et al., 2004).

Family and friends may become implicated in the financial decisions and strategies adopted by individuals and households. Due to the lack of flexibility in mainstream financial services, and the costs associated with high-cost credit providers, low income households may prefer to borrow money from family and friends (Ben-Galim and Lanning, 2010). The consequences of a lack of financial capability can also flow through the household as individuals may become liable for their partner's debt (Kaye, 1997; Goode, 2010).

The consequences of poor financial capability may cost the public purse through the provision of debt advice, health problems related to stress, legal aid, support from social services and evictions due to rent arrears (Controller and Auditor General, 2010; Lindsay, 2010). In Scotland in 2007/08 social landlords took legal action resulting in the eviction of 3,573 tenants. Only 3% of these evictions were the result of anti social behaviour, generally they were the result of rent arrears (Shelter Scotland, 2008). Additionally, in 2008-09, over £100m worth of council tax bills were uncollected in Scotland (Scottish Government Financial Inclusion Team, 2010: 9-10).

Local economies may suffer as a result of the lack of financial capability in the population. For example, older people may not be aware of all their benefit entitlements and this can affect the local economy as this is where they are likely to spend this extra income (Bourn, 2002; Crosby et al., 2007: 27-28). It has been estimated[10] that in Great Britain for the financial year 2008-2009 there were between £6,330 million and £10,520 million of unclaimed benefits[11] (Department of Work and Pensions, 2010). Leeds City Council commissioned research to identify and quantify the impact of financial inclusion activities on the city and regional economy. Using data from the Family Resources Survey it was estimated that service users spent over £22 million in the City of Leeds. The regional economy also benefited and for every £1 spent in the local economy by service users, £0.25 was cumulatively generated in the regional economy (Dayson et al., 2009).

## Tackling Poverty Through Financial Capability

Having drawn attention to the links between low financial capability and poverty this section considers how poverty can be tackled through initiatives to increase financial capability. It highlights the need for targeted education and advice that addresses an individual's attitudes

[10] Calculated using the Family Resources Survey and DWP and local authority benefit records data - the basis of the Work and Pensions Longitudinal Study and the DWP Statistical Summaries (see http://statistics.dwp.gov.uk/asd/index.php?page=irb_arc for more details)

[11] Income Support, Pension Credit, Housing Benefit, Council Tax Benefit, Jobseeker's Allowance (Income-Based) and Employment and Support Allowance (Income-Related)

and motivations; and the necessity for the financial infrastructure to accommodate the needs of low income groups.

**Education and advice needs to be targeted across the life course and be relevant to individuals**

The OECD defines financial education as:

> *"the process by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being"*
> (OECD, 2005a: 26)

The OECD (2005b) has asserted that financial education should start at school. The Scottish Government and others have supported financial education in primary and secondary schools curriculum through Learning and Teaching Scotland's Scottish Centre for Financial Education (SCFE). The SCFE has provided professional support for teachers and practical resources, for example support for *Money Week* initiative[12] and the resource *Talk Money, Talk Solutions*[13] (Scottish Centre for Financial Education, 2007a; Scottish Centre for Financial Education, 2007b). The new Scottish *Curriculum for Excellence* includes the development of financial capability through the numeracy element which is the responsibility of all teachers. Students will be taught how to compare financial products and how to budget, for example (Learning and Teaching Scotland, 2010a; Learning and Teaching Scotland, 2010b).

In the United States the American Bankers Association Education Foundation sponsors programmes like *Teach Children to Save* and *Get Smart About Credit* which partner banks with children and young adults for lessons to encourage saving and the responsible use of credit. The *Teach Children to Save* and *Get Smart about Credit* websites also provide resources to allow users to test their credit sense; helps users create a budget; provide money manuals for parents and tools for users to calculate whether they can afford a loan (American Bankers Association Education Foundation, 2010a, 2010b). The US Treasury has developed an online game, and accompanying resources, called *Bad Credit Hotel*, to help users understand credit and debt (US Treasury, 2010). The Royal Bank of Scotland's MoneySense initiative is delivered in 70 percent of Scottish schools and there is also an extensive on-line resource tailored to various age groups: http://rbsmoneysense.co.uk/schools/

Attitudes towards money are not only formed at an early age and HM Treasury and the Financial Services Authority (2008) target initiatives at individuals at key points across the life-course. People's lives are dynamic and therefore a holistic and life-course approach needs to be taken to financial education and advice (OECD, 2005b; Dearden et al., 2010). Financial education and advice is especially important at transitions points in people lives

[12] A themed week where all classes in a primary school engage in activities on the theme of money – for example the Buy a Bike activity (Primary 4) which encourages understanding of budgeting and planning ahead (Scottish Centre for Financial Education, 2007a).

[13] This resource outlines a series of activities (such as making sandwiches to earn money) that can be conducted with primary school students to help develop their financial capability (Scottish Centre for Financial Education, 2007b).

such as the birth of a first child and the start of a new job (Gillespie and Dobbie, 2007; Gillespie et al., 2007; Scottish Government, 2010a) both because there will be an impact on their finances and because people may be more receptive to new ideas and change their behaviour. Proactive contact by those delivering financial education and advice at transitions such as these has been recommended (Gillespie and Dobbie, 2007). Financial education should be delivered before people reach a crisis point, rather than in response to a crisis. However, this may be difficult because of limited budgets (Scottish Government, 2010a).

Financial education can be delivered through the workplace and community settings to ensure the specific needs of different parts of the population are met. The OECD (2005a) recommends that credit education for example is based on real life situations (OECD, 2005a). For example, money advice and financial capability advice is often delivered in employability settings to help people with budgeting, benefits and debt problems as they prepare to re-enter work (Gillespie and Dobbie, 2007). Financial capability training has been delivered in prisons in order to help prisoners to understand job adverts, write cheques and understand bills (see Lincolnshire Action Trust, no date; Jones, 2006; Ipsos MORI, 2010), reducing the drivers for re-offending. This tailoring of training programmes will help motivate individuals to take part (Social and Enterprise Development Innovations, 2004: 23; McCormick et al., 2005).

Although there has been some progress since, research for the Basic Skills Agency (2006) found that there was no formal or professional standing for practitioners who deliver financial capability. Their training needs were distinct from those of financial and money advice training aimed at advice workers. A number of recommendations were made concerning the supply and demand for training of practitioners working in formal education and the voluntary and community sector. The Basic Skills Agency and the Financial Services Authority (2006) developed a publication to help identify and understand the needs of learners and to plan the work of those involved in financial capability education. It sets out the required skills, knowledge and understanding at three distinct levels covering the issues of: financial knowledge and understanding; financial skills and competence; and financial responsibility.

Evidence examined for this review suggests that the most effective way in which to tackle financial exclusion, a lack of financial capability and poverty is through joint working (Commission for Rural Communities, 2010). A range of sectors and agencies can also be involved in delivering financial education and advice in a variety of settings across the life course. This reflects that individuals may not seek advice only from the mainstream sector but also the community sector and informally (Mawhinney, 2010). For example, housing associations deliver a range of services, such as signposting, training and insurance facilities to help address the problem of financial exclusion and a lack of financial capability amongst their tenants. Guides have been developed in order to assist frontline staff in the housing sector to deliver financial capability training (Terry et al., 2006; Alexander, 2007: 5; National Housing Federation and Toynbee Hall, 2008; Hood et al., 2009). In Dundee the *Hillcrest Housing Association Pre-tenancy project* helps tenants maintain successful tenancies by providing financial education and helping them to access benefits and other funds such as services from credit unions (Scottish Centre for Regeneration, 2010). Financial education and advice can also be delivered in health care settings (Bateman, 2008; Fitch et al., 2009). For example, *Glasgow Association for Mental Health* delivered a *Financial Inclusion Development Project* aimed to improve access to financial advice for people with mental health problems (Dobbie and Gillespie, 2009).

A Scottish Government survey of financial education providers in Scotland highlights that financial learning often involves the development of the literacy and numeracy skills which underpin everyday financial activities, such as reading and understanding written and numerical information and filling in forms (Scottish Government 2007)[14]. Many of the individuals and groups for whom financial learning can have a significant impact may also be those in need of literacy and numeracy support. At the same time, money provides a context which is relevant to adults' lives: and approaches to adult literacies in Scotland acknowledge that people are likely to learn more effectively if that learning is relevant and rooted in real, everyday contexts (ibid.).

Suggestions have also been made of the value of delivering advice in locations familiar to service users. The use of these locations present a better way in which to develop trust with service users and reach disengaged consumers (Gillespie and Dobbie, 2007; Bateman, 2008; Fitch et al., 2009; Commission for Rural Communities, 2010; Mawhinney, 2010). Services also need to be flexible. Financial advice delivered face-to-face is the most effective way (when compared to web and telephone based interventions) in which to increase financial capability (CFEB, 2010b). Although some service users may value face-to-face delivery of financial advice because of issues of trust, communication and sensitivity (Mawhinney, 2010) others may not. The *Thoresen Review* of generic financial advice also makes this recommendation by advocating a multi-channel and preventative approach in the delivery of financial advice (Thoresen, 2008). This has been reiterated in CFEB's (2010b) evaluation of the *Money Guidance Pathfinder*. This approach recognises that different groups are more exposed to and comfortable with, some sources more than others. Advice may also be cheaper to deliver through these channels and not all service users need intensive face-to-face support (OECD, 2005a; Financial Inclusion Taskforce, 2010a; Gillespie and Dobbie, 2010)

**In order to be effective financial education and advice needs to address an individual's attitudes and motivations**

Economic psychology, behavioural economics and behaviour change theory highlight that financial education strategies need to be able to change behaviour rather than merely imparting information (Dixon, 2006; Mandell and Klein, 2007; de Meza et al., 2008; Oehler and Werner, 2008). An individual may possess skills but they may not necessarily use them in practice. US research has indicated that levels of financial literacy are linked to motivation and that the role of individual knowledge and skills should not be overplayed (Mandell and Klein, 2007). For example, it has been found that the value of home content insurance may be acknowledged by consumers but they will not necessarily purchase it (Lindsay, 2010).

The final evaluation of the Saving Gateway Pilot (2007) explored the impact of the Saving Gateway (SG) initiative which aimed to encourage saving among lower income households in England. The initiative was eligible to individuals aged 16 to 64 with individual earnings up to £25,000 and family earnings below £50,000 *or* in receipt of a main (specified) out-of work benefit. The pilot ran for 18 months and offered individuals opening Saving Gateway accounts various levels of match-funding from the UK Government and stipulated a monthly contribution limit. Alongside the financial incentives, financial education was also offered through the initiative. The evaluation found that many of those in the scheme were positive about the incentive for regular saving that the accounts created; noting that the accounts had encouraged them to get into the 'habit' of thinking more carefully about their finances and looking at what they could afford to pay into the SG account. Having a target to work

[14] http://www.aloscotland.com/alo/downloadresource.htm?id=1313

towards, both in terms of short-term monthly deposit targets and the longer-term goal of achieving the maximum matched funding was felt to offer a strong incentive, in particular to those who did not previously feel that they were capable of saving (Harvey et al. 2007) .

Elliott et al. (2010: 11) consider ways in which to change financial behaviour. They argue that in order to increase financial capability there is a need to change the environment in which financial decisions take place. Individuals:

- May be influenced by who communicates financial information
- Respond to incentives
- Follow societal norms
- Take default decisions
- Respond to information that is relevant to their circumstances
- Follow sub conscious cues
- Make emotionally driven decisions
- Make commitments to others
- Act in ways that make them feel good about themselves

**Low income groups need more access to financial products and services**

As previous sections highlighted those on low incomes may find it difficult to access mainstream products and services because of their needs. Decisions (e.g. to use door step money lenders) may not necessarily be solely indicative of low financial capability, but rather of a lack of access to mainstream financial service providers. Households may simply be coping in the best they can with the constraints of their low incomes.

There are alternatives to mainstream financial services that may be able to provide the low level loans. The UK government *Growth Fund* has made available affordable personal loans via third sector organisations, such as credit unions (DWP, 2010). Over 240,000 loans have been made with a net administration cost of £66 per loan; £134 cheaper than the cost of a door step money lender (Financial Inclusion Taskforce, 2010c: 5). However, the Financial Inclusion Taskforce (2010c) concludes that the *Growth Fund* currently has limited reach. Community Development Finance Institutions (CDFIs) lend money to businesses, social enterprises and individuals who struggle to get finance from high street banks and loan companies. CDFIs lent a record £113m in 2009 in the UK, up 50% from the previous year (CDFA 2009).

More generally credit unions may be able to meet the needs of those on low incomes. Demand for low level loans is currently not being met (Financial Inclusion Taskforce, 2010c) and McKillop and Wilson (2008) recognise that internationally credit unions have been successful where there has been limited competition in the market. Lessons can be learned from examples in the UK and internationally if credit unions are pursued as a way in which to meet the financial service needs of those on low incomes:

- Although credit unions are often located in deprived areas international evidence suggests that they need to cater for consumers from different income groups in order to be successful. McKillop and Wilson (2008: 1) draw attention to the problems that could be faced by credit unions if they are *"tarred as the poor man's bank"*. Credit unions need to have a membership base that is balanced in terms of those who borrow and those who save in order to be sustainable.

- Lending practices may have to be made more flexible to meet the needs of those on low incomes (Hayton et al., 2005).

- *Financial Inclusion Newcastle* (FIN) supported 4 credit unions in the West End of Newcastle and was part of New Deal for Communities. This strategy is no longer running but lessons can be learnt from the factors that contributed to FIN's demise. There were problems with the FIN model: there was a failure to engage fully with those in the local community; the workers often lived outside the area; and the credit unions were small, making it difficult for them to develop. There were problems with the internal structure of FIN and the FIN Board was not as strongly rooted in the community as intended. FIN also suffered as a result of tensions between residents and New Deal for Communities regeneration scheme that FIN was established through (Fuller and Mellor, 2008).

- There needs to be good leadership and professionalism in the way in which credit unions are run (McKillop and Wilson, 2008).

## <u>Conclusions and Recommendations</u>

This review considered evidence from Scotland and elsewhere concerning how financial inclusion and financial capability impact on tackling poverty as they relate to disadvantaged groups (especially the lowest 3 decile income groups and low income families). Financially included consumers have: access to appropriate financial products and services; and the financial capability to use these financial products and services effectively. The evidence suggests that those on low incomes are more likely to be financially excluded and to suffer lower levels of financial capability.

A lack of financial capability can affect anyone but evidence considered by this review highlights that younger people, those on low incomes, those with children and those with poor levels of education are most likely to have low levels of financial capability. The review has highlighted the links between low financial capability and poverty. For example, individuals may not be able to access mainstream financial products and services; individuals may not be able to choose appropriate products; individuals may be paying more for goods and services; and households may not be able to manage 'shocks' (such as redundancy or partnership breakup). However the links between financial capability and poverty are not clear cut. Low income households may be making decisions, and coping in the best way they can, against the backdrop of a low income and lack of access to mainstream financial products and services.

A number of initiatives were briefly reviewed although many of these focus on specific issues rather than taking a comprehensive capability perspective. However, it should be noted that while expectations are that these policies and initiatives will be of considerable assistance, there are few thorough evaluations and limited in-depth data on actual impacts and costs and benefits available.

### Recommendations

Given the caveats above, from the evidence the authors make a series of general, preliminary recommendations concerning ways in which increasing financial capability can be used as a means to tackle poverty:

- Appropriate education and advice needs to be targeted at different life stages or events across the life course and be relevant to individuals, for example the move to independent living or becoming a parent.
- In order to be effective, financial education and advice needs to address an individual's motivations as well as their skills and knowledge. The role of wider social networks in shaping attitudes should be acknowledged.
- Financial capability is only part of financial inclusion and other issues, such as the level of resources that people have access to (e.g. in terms of income), are fundamentally important.
- Financial literacy and capability do not substitute for a lack of regulation of financial services and government still needs to protect consumers (OECD, 2009) and ensure that appropriate financial products are available to low income groups.
- Support needs to involve a range of bodies, including those with specialist expertise and those with close ties to communities, to ensure the effective involvement of the individuals, groups and communities targeted.

## Appendix 1 – Methods

The key task which the evidence review had to achieve, within the limited time available, was to:

*"focus on evidence about how financial capability impacts on tackling poverty. While considering the Scottish experience (paying particular attention where possible, to those in the L3 and those in low income families) the evidence review will also take account of substantive work from elsewhere, with a view to exploring more fully the options for tackling poverty under the current devolved settlement"*

The evidence review was conducted primarily in August 2010, and included policy, evaluation and academic work:

Literature provided by the Scottish Government in an extensive bibliography was reviewed
Literature already known to the authors was reviewed
Literature searches using search engines were conducted
The websites and reports produced by organisations known to the authors as being concerned with poverty, financial inclusion and/or financial capability were reviewed.
The relevant references from the literature identified were reviewed

## Appendix 2 – Income Decile Groups

In Scotland income deciles are calculated using data on equivalised income (before housing costs). Each decile contains approximately 10% of the population with group 1 representing those on the lowest incomes and group 10 representing those on the highest incomes (Scottish Government, 2010b). Using the Department for Work and Pensions' Family Resources Survey[15], Households Below Average Income dataset[16] the Scottish Government (2010b: 8-9) indicates groups who are more likely to fall into the lower income deciles in Scotland:

There is high proportions of single people with dependent children
57% of those in the lowest 3 income deciles are in families where no one is working
Couples without children are located in the highest income deciles
There are more pensioners in the lower income deciles although they tend to fall into the third and fourth deciles
Single people without dependent children make up 30% of those in the lowest decile (and approximately 20% in the other deciles).

Through the Solidarity Purpose Target the Scottish Government aims increase the income of the poorest in Scotland (those in the 3 lowest income deciles). Increasing financial capability is seen as central to this (Scottish Government Financial Inclusion Team, 2010).

[15] Family Resources Survey has been run in the UK since October 1992 (although Northern Ireland has only been included since April 2002) to provide information of the lives and resources of households. It has an annual target sample size of 24,000 private households (http://www.natcen.ac.uk/study/family-resources-survey; http://www.esds.ac.uk/government/frs/ and http://www.csu.nisra.gov.uk/survey.asp4.htm)

[16] Households Below Average Income (HBAI) is based on the Family Resources Survey and *"uses household disposable incomes, adjusted for household size and composition, as a proxy for material living standards or, more precisely, for the level of consumption of goods and services that people could attain given the disposable income of the household in which they live"* (see http://statistics.dwp.gov.uk/asd/frs/index/index.php?page=links).

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## TACKLING POVERTY: FINANCIAL CAPABILITY

**SITUATION: SUMMER 2010 – Positive trends in poverty rates are stalling, and predictions for the next few years are concerning.**

### INPUTS

**TIME**

**MONEY**

**EVIDENCE**

**RESOURCES:**

Scottish Government
UK Government/CFEB
Local authorities and CPPs
Voluntary Sector
Employers
Partner agencies
Academic sector
Financial sector

A partnership approach
Holistic user focused services
Capability and commitment in frontline

### ACTIVITIES

- National UK

Treasury/CFEB – Making the Most of Your Money, Moneymadeclear and National Financial Advice Service, developing resources etc.

- Scotland Wide

Scottish Government - Financial Capability Discussion Paper and associated actions – national and local coordination, building the evidence base, training and capacity building for frontline staff, mainstreaming financial capability through policies and services
Schools - Curriculum for Excellence and support from LTS
Industry led programmes e.g. RBS – Money Sense
Web based support for practitioners e.g. Financial Learning On-line

- Local

CPP – identification of need, coordination of local activity, monitoring and evaluation
Local Authority/CPP – financial education officers, input via advice services and education and CLD, employability programmes
Health Service – projects associated with specific conditions e.g. cancer. Patient Advisory Service
Credit Union financial education for members
Housing Associations e.g. pre-tenancy support
Citizens Advice Bureau Financial Capability Programme
Offender learning programmes
College and University based support and learning – e.g. Financial Capability Support Programme – Scotland's Colleges
Community Based Programmes e.g. Greater Easterhouse Money Advice Project
Support for specific groups e.g. young mums, disability groups
Work based e.g. activity by Unions, employers.

### PARTICIPANTS/REACH (co-production)

**Individuals**: Lowest 3 income deciles. Especially:

- People in debt
- Unemployed
- Lone parent families
- Deprived areas
- Young people and older people

Organisations: schools, finance industry, employers, community, higher and further education facilities, credit unions, housing associations, citizens advice bureaux, prisons, voluntary sector, local authorities, Community Planning Partnerships and health service providers.

### OUTCOMES

#### SHORT

**Individual – knowledge and information**

People know how to:

- Make a change
- Seek or accept advice to identify needs

People understand:

- motivations and drivers e.g. for spending
- the cost of borrowing – including high cost lenders and credit unions – how to use APR as an indicator
- the value of savings and options available
- when, where and how to seek advice
- what financial products are available

People can:

- keep track of finances
- budget effectively
- shop around for the best deal
- evaluate which product is best for them from the range available

**Organisations offer:**

- Client focused services
- Opportunities for clients to inform decisions about service provision.
- Understanding of clients' needs.
- Use of peer support to sustain changes
- Financial capability training embedded in other activities
- Consideration of the best route for reaching the client e.g. Community-based outreach services - particularly for excluded groups
- Services that respond to people with multiple and complex needs
- Preparation for welfare reform, job cuts and service cuts
- Integrated benefits reviews looking at overall money health check and provide relevant advice
- Understanding of the link between poor mental health and wellbeing, employability and wider resilience

#### MEDIUM

**Individual – attitudes and behaviour:**

- Motivation to apply advice and change behaviour

People have:

- necessary pre-requisite skills e.g. literacy and numeracy
- the skills to evaluate financial choices
- Changed attitudes towards credit, taking personal responsibility
- Improved confidence
- Improved mental health and ability to cope with changes – resilience
- Support/Ability to sustain transition to paid employment
- Access to income maximisation advice to improve benefit take up
- Supportive community/environmental factors to underpin change

**Organisations**

- Financial capability delivered in schools through Curriculum for Excellence
- Knowing key target groups and targeting with advice
- Differential impact – impact/potential impact on all income deciles
- Testing new models to develop good practice
- Legislation – regulation and scrutiny
- Development of outcome indicators/evidence base for long term impact of interventions
- Changing culture of providers – affordable and accessible products and services
- Increased use of financial services
- Increased incidence of savings/pensions
- Challenging stigma and sensitivities

#### LONG

**Routes out of Poverty**

Increased income, via:

Benefits
Employment
Pensions
Other sources e.g. selling unwanted goods

Reduced Expenditure:

Improved budgeting
Better keeping track of spending
Shopping around for better deals
Securing affordable credit

Prevention of crises:

Avoiding unsustainable debt
Savings (and pensions) as a buffer for crisis
Preparedness for/managing financial implications of life events such as parenthood, redundancy, loss of health

**Organisations**

- Employers offering financial education and support
- Macro structure changes
- Use evidence to monitor & improve practice

**INCREASED HOUSEHOLD RESOURCES / INCOME will lead to tackling poverty**

**ASSUMPTIONS:** Effective advice/interventions can lead to behaviour change when accompanied by appropriate support and delivered using established good practice. Suitable financial products are available to enable people to change behaviour; the market needs to be receptive to the needs of a financially capable population.

**EXTERNAL INFLUENCES:** General economic conditions and availability of work. Availability of affordable, accessible products is not guaranteed – the financial sector may need to be encouraged to provide services that are more appropriate to the target group. Where possible this logic model looks at the impact of financial capability on the lowest three income deciles but the evidence is limited. Need to be aware of differences around devolved and reserved matters.