

Responsible financial behaviour: the three dimension

2013 Public Monitor



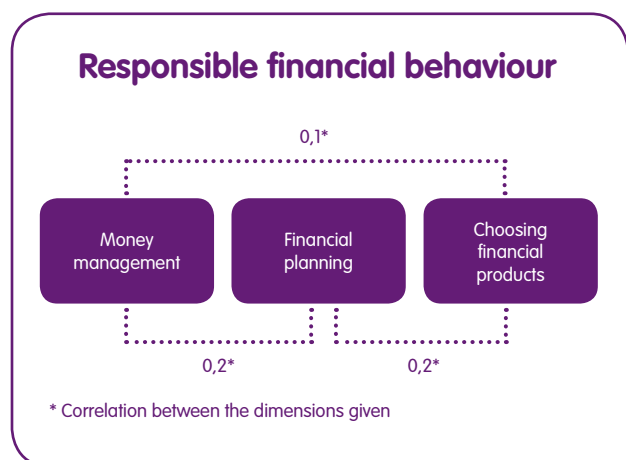
Since 2009, the Money Wise Platform has been gauging the financial behaviour of Dutch consumers through the annual public monitor. Noteworthy and/or undesirable financial behaviour and trends can thus be identified and can contribute to the policy adopted by professionals in the area of financial education and debt prevention. The Money Wise Platform will make responsible financial behaviour the centre of focus in the years to come. The structure of the public monitor has been adapted to serve this end and this year the focus will be on the questions: what are the dimensions of responsible financial behaviour and what factors influence this? The set of questions used to investigate this can be seen as a gauge of current financial behaviour among Dutch consumers. The study was conducted by Motivaction and can be consulted [here](#).

Three dimensions of responsive financial behaviour

The study showed that responsible financial behaviour cannot be approached as though it were a single dimension – it consists of at least three dimensions that are virtually independent of one another. These three dimensions are: the “money management”, “financial planning” and “choosing financial products”. Responsible behaviour in one dimension does not necessarily translate to responsible behaviour in the other dimensions. The study shows only a slight correlation between the three dimensions.

The “money management” means the ability to make ends meet and maintain control of your income and expenditures. The dimension of “financial planning” means anticipating both certain and uncertain events that have influence on the household finances in both the short and long term. The dimension of “choosing financial products” means the well-considered purchase of financial products and evaluation of financial products that have already been purchased.

These three dimensions are derived from the five aspects that the OECD adheres to in studies conducted into financial erudition by a number of affiliated countries. These aspects are (1) *financial control*, (2) *making ends meet*, (3) *financial planning*, (4) *choosing appropriate financial products* and (5) *financial knowledge and understanding*.¹ The aspects are based on a study conducted in the United Kingdom² The Dutch Nibud (National Institute for Family Finance Information) also uses these five competencies to test financial independence³. The table below shows how the behavioural dimensions from the Money Wise Platform’s public monitor relate to the OECD competencies. Because having financial *knowledge and understanding* still has to be converted into actual responsible financial *behaviour* (knowing is not the same as concordant action or inaction), *knowledge and understanding* was studied in the public monitor as a factor that influences behaviour.



OESO	Publieksmonitor	Opmerkingen
(1) Financial control (2) Making ends meet	Money management	
(3) Financial planning	Financial planning	
(4) Choosing appropriate financial products	Choosing financial products	
(5) Financial knowledge and understanding	-	Knowledge and understanding characterised as factors influencing responsible financial behaviour

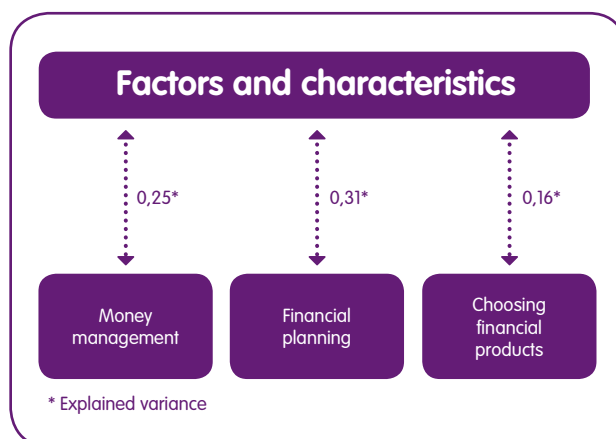
¹ <http://www.oecd.org/daf/fin/financial-education/measuringfinancialliteracy.htm>

² PM

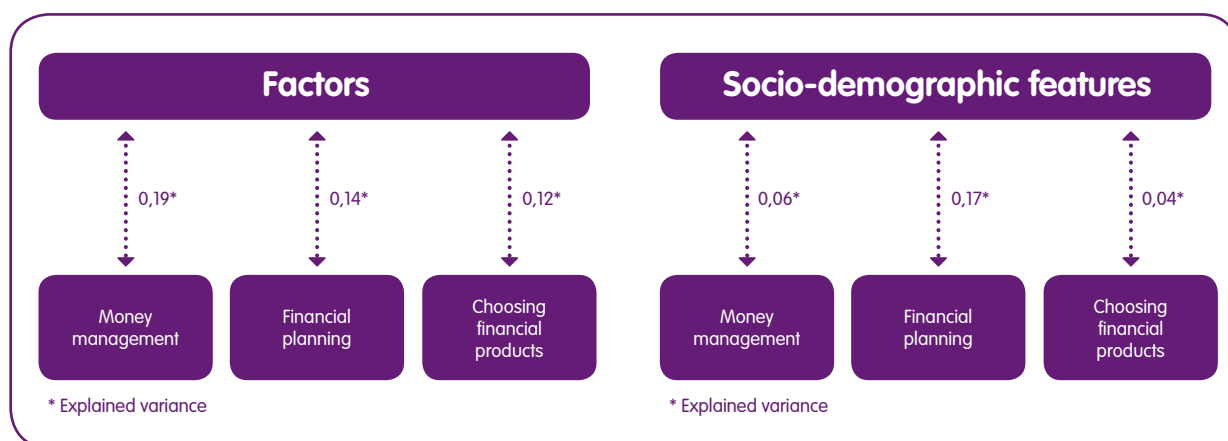
³ http://www.nibud.nl/fileadmin/user_upload/Documenten/PDF/2012/Goed_omgaan_met_geld.pdf

Influence of personal factors and socio-demographic features on financial behaviour

Also studied was the extent to which certain personal factors and socio-demographic features influence and explain the behaviour in the three dimensions.⁴ With respect to the personal factors, we concurred with those that are known from the social-scientific literature and derived from the Mentality-model of Motivation: *knowledge and understanding, engagement, responsibility, basic values and social environment*. Personal characteristics such as intelligence and character features are not included here.⁵ The following socio-demographic features were also analysed: *age, education, gender, income and work situation*.



This study reveals a substantial to fairly strong correspondence between the personal factors and socio-demographic features, on the one hand, and the three dimensions of behaviour, on the other. This means that a change in these factors and features for a consumer probably also leads to a different financial behaviour on the part of this consumer. So it makes sense in all three dimensions to try to influence the personal factors. In the dimension of “financial planning”, this also pertains to the socio-demographic features. Yet this will be more difficult to realise in practice.



All three dimensions also comprise other socio-demographic features, personal factors and personal characteristics, not included in this study, that influence people’s financial behaviour.⁶ This is particularly true for the behavioural dimension of “choosing financial products” in view of the fact that there is the least correlation between this dimension and the features and factors studied in the public monitor. No data is available as to how many relevant, but unstudied features and factors there are and the extent of the influence each of them has.

⁴ The causality and the direction of the discovered correlation cannot be stated for certain, but this study does provide an indication of this.

⁵ See the extensive history of the analysis conducted by the Nibud of the financial problems that have arisen: Madern, T., Van der Schors, A., *Kans op financiële problemen*, http://www.nibud.nl/fileadmin/user_upload/Documenten/PDF/onderzoeken/2012/kans_op_financiële_problemen.pdf

⁶ It cannot be said with absolute certainty that there are other factors. The unpredictability of human behaviour could also provide the explanation still to be given.

Basic values and engagement are important to financial behaviour

Also studied was the question of which of the five personal factors and the five socio-demographic features have the most direct influence on the three behavioural dimensions, i.e., which factors and features best explain the financial behaviour observed.⁷ In all three behavioural dimensions, this seems to pertain to the factors of “basic values” and “engagement” and the socio-demographic features of “income” and “work situation”. The features will be explained later on.

With respect to “basic values”, the study measures how conservative someone is in the area of taking risks, life style and being open to changes. It is noteworthy that increasing conservatism shows a *slightly negative* correlation with the dimension of “taking conscious decisions with respect to financial products”, while it shows a *strong positive* correlation with the two other dimensions. It also seems that Dutch people have a considerably conservative value orientation, according to the study. This is significantly less the case among freelancers.

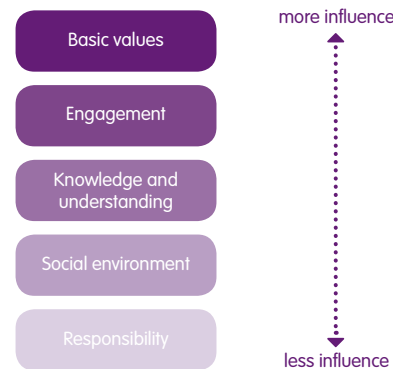
The factor of “engagement” means: interest in one’s own money matters, awareness of a problem and the wish to improve one’s financial situation. This factor correlates most with the dimension of “choosing financial products” and the least with the “money management”. The study provides

no explanation for this, but it could be that the dimensions of “choosing financial products” and “financial planning” require greater effort and a more active attitude on the part of the consumer, for which more engagement and a greater feeling of necessity is needed. Jungmann had already correlated engagement with *motivation and being open to the transfer of information*.⁸ On a positive note, the majority of the respondents showed that they were engaged with their personal finances. Nonetheless, one-third of them do not like to focus on this part of their lives, 44% of them think it is acceptable to have a negative bank balance occasionally and nearly one-fourth of them do not agree with the statement that he or she only borrows money when he/she knows for certain that he/she can repay the loan within an acceptable period. Consumers with an above-average income are also more engaged with their personal finances than are consumers with a below-average income.

Knowledge and understanding have less influence on responsible financial behaviour

Another noteworthy conclusion of the study is that the factor of “knowledge and understanding” provides a limited explanation for the observation of responsible financial behaviour. It should be added that this can be caused by the set of questions chosen in this study; the study did not investigate how knowledge influences the different features and factors (such as engagement) and therefore *indirectly* influences the behaviour. It is also worthy to note that the factor of knowledge has a *slightly negative* influence on the dimension of “money management”: more knowledge therefore leads to a slight fall in the score for the responsible money management. The study does not provide an explanation for this. It is possible that there is a correlation with the also interesting finding that consumers with a higher income score lower on components in the dimension of the “money management”.⁹ Finally, the factors of “social environment” and “responsibility for one’s own finances” provide little to no explanation, respectively, for the behaviour observed in the different dimensions.

Personal factors that influence financial behaviour



⁷ It can also happen that a factor (/feature) does show a large correlation with the financial behaviour observed, but that this factor is to a large degree determined by another factor(/feature) that also shows a large correlation with the financial behaviour. So it is particularly useful to try to influence the latter factor.

⁸ Jungmann, page 17 et seq.

⁹ This can also be explained by the possibility that consumers with a higher income feel less need or have less need to focus on their income and expenditures.

Socio-demographic features: income and work situation are particularly important

Among the socio-demographic features, it seems that *income* (below-average, average, above average) and *work situation* (employed, freelance, unemployed) are the most important influences on people's financial behaviour.

The differences between different income groups are especially found in financial planning behaviour (more income is expressed in better financial planning). The influence of the work situation on financial behaviour differs by dimension: unemployed people, for instance, score less well on the dimension of "financial planning", but better on the dimension of "money management". It is worth noting that freelancers score less well over nearly all dimensions. Another interesting finding is the fact that employed people say relatively often that they are well prepared for (potential) life events *without* having taken measures in this regard.

Conclusion

It can be said in conclusion that to promote responsible financial behaviour attention must, in any case, be given to three different dimensions: responsible money management, financial planning and choosing financial products. The study has revealed that it is sensible in each dimension to work on the factors of "engagement" and "basic values". The factor of "engagement", in particular, is not a static given. This can, for example, come about as a result of a (dramatic) event in a person's life such as a divorce or the purchase of a house. In addition, it seems that someone's income and work situation also affect responsible financial behaviour, particularly in respect of responsible financial planning. Although it will be difficult to influence these features, the related information can be useful in determining the target group in planned interventions. The manner in which these factors and features can be best influenced was not investigated in this study. The platform will investigate how this study can perhaps be rendered concrete.

Socio-demographic features that influence financial behaviour

