

Measuring financial capability using a short survey instrument: Instruction manual

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About the author

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1 Introduction

The 2005 Baseline Survey of Financial Capability (BSFC) was designed by the Personal Finance Research Centre on behalf of the Financial Services Authority to measure the four domains of financial capability which we had identified in earlier exploratory work with consumers. Original analyses of the survey data identified five distinct aspects of financial capability across the four domains, namely *making ends meet*, *keeping track*, *planning ahead*, *choosing products* and *staying informed*.¹

When conducted, this survey was the most comprehensive study of its kind in the world. It comprised face-to-face interviews with a total of 5,328 people across the UK, using a survey instrument which took an average of 42 minutes to complete. With increasing national and global interest in measuring financial capability, the Personal Finance Research Centre was commissioned by the Financial Services Authority in 2009 to develop a short version of the baseline survey which could be used to inform future financial capability measurement in the UK.

The questions set out in this manual are all the questions that are needed to create simple indicators for each of the five aspects of financial capability identified in the original analysis of the BSFC. There are 16 questions in total, three of which feed into the making ends meet indicator, five for the keeping track indicator, three each for planning ahead and choosing products, and a final two to create the staying informed indicator.

A considerable amount of developmental work has gone into this manual. Questions have been tested exhaustively in multivariate analysis,² and scoring simplified until this final approach was settled on. This approach is as simple as is reasonably possible whilst still providing an indication of levels of financial capability across all five aspects.

The intention is that this manual provides researchers with a toolkit comprising appropriate questions that can be used to create indicators of financial capability, and a simple method for creating those indicators. The approach can be replicated across different groups and over time.

¹ Atkinson A, McKay, S. Kempson, E and Collard, S (2006) 'Levels of Financial Capability in the UK: results of a baseline survey' *Consumer Research* 47 / 47a / 47b. London: Financial Services Authority.

² Principally exploratory factor analysis and regression analysis.

2 The survey questions

In this section we specify the survey questions that are needed to measure each aspect of financial capability. Note that this document is not designed to be a questionnaire: it identifies only those questions of relevance for the indicators, additional questions should be asked to find out about the social, economic and demographic characteristics of respondents.

The questions below have been worded for use in a telephone survey, but could also be adapted for use by face to face or online.

The questions are designed to measure levels of financial capability at an individual level. They therefore generally stress the importance of giving responses that reflect the respondent's position, rather than the household. Making ends meet considers the household's ability to make ends meet because most households run a joint account for money management, but the respondent is asked about their own attitudes in order to maintain the measurement at the respondent level.

We have suggested simple variable names for each question. The numbers shown in square parentheses are the values allocated to each possible question response and which are needed for processing the data, as described in Section 3 below.

2.1 Making ends meet

Q1 MEM01

Which **one** of the following statements best describes how well you *{and your partner}* are keeping up with your bills and credit commitments at the moment? Are you: *Read out and code one only*

Keeping up with all of them without any difficulties	[4]
Keeping up with all of them, but it is a struggle from time to time	[3]
Keeping up with all of them, but it is a constant struggle	[2]
Falling behind with some of them	[1]
Having real financial problems and falling behind with many of them	[0]
<i>Don't know</i>	[2]
<i>Refused</i>	[2]
<i>Don't have any commitments</i>	[4]

Highest score on this question is 4

Q2 MEM02

And in the past 12 months, how often have you {*and your partner*} either run out of money before the end of the week or month or needed to use your credit card or overdraft to get by? Would you say it was: *Read out and code one only*

Always	[0]
Most of the time	[1]
Sometimes	[2]
Hardly ever	[3]
Never	[4]
<i>Too hard to say/varies too much to say</i>	[2]
<i>Don't know</i>	[2]
<i>Refused</i>	[2]

Highest score on this question is 4

Q3 MEM03

How strongly do you agree or disagree with the following statement "I am very organised when it comes to managing my money day to day."

Agree strongly	[2]
Tend to agree	[1]
Tend to disagree	[0]
Disagree strongly	[0]
<i>Don't know</i>	[1]
<i>Refused</i>	[1]

Highest score on this question is 3

Highest score on this domain is 4+4+ 2=10

2.2 Keeping track

The first question in this section is necessary to identify those people who are primarily cash budgeters. It does not go into the final score.

Q4 KT01

Can I check, do you have a day-to-day bank or building society account either in your own name or jointly with someone else?

No	[0]
Yes	[1]
Don't know	{missing}
Refused	{missing}

If 'no' 'don't know' or 'refused' at Q4 KT01 skip to Q8 KT02b; otherwise ask:

Q5 KT02 (ASK IF HAS BANK ACCOUNT AT Q4 -KT01 (CODE 1))

Which of these best describes how accurately you know the balance on this account? I'm not interested in how much money is actually in the account, just how accurately you know how much money you have in the account.
Code one only

Has no idea at all	[0]
Has only a rough idea of how much they have	[1]
Knows exactly or to within the nearest pound or two	[2]
<i>Don't know</i>	<i>[0]</i>
<i>Refused</i>	<i>[0]</i>

Highest score on this question is 2

Q6 KT03 (ASK IF HAS BANK ACCOUNT AT Q4 -KT01 (CODE 1))

And how often do you [add: *yourself* if lives with partner or other adults] normally check how much money is in this account? Is it ... *Read out and code one only*

Every day	[5]
At least once a week, but not every day	[4]
At least once a fortnight, but not once a week	[3]
At least once a month but not once a fortnight	[2]
Less than once a month	[1]

Never	[0]
<i>Don't know</i>	[1]
<i>Refused</i>	[1]

Highest score on this question is 5

Q7 KT04 (ASK IF HAS BANK ACCOUNT AT Q4 -KT01 (CODE 1))

Which of these statements best describes what you (add: yourself if lives with partner or other adults) do when you either receive a printed bank statement for this account or check your bank statement on-line? *Read out and code one only*

I check off receipts and spending against the statement	[3]
I check the entries and balance on the statement to see if they look OK	[2]
I just check the balance	[1]
I don't look at the statement at all	[0]
<i>Don't know</i>	[0]
<i>Refused</i>	[0]

Highest score on this question is 3

Q8 KT02B (ASK IF NO BANK ACCOUNT AT Q4-KT01 (CODE 0) OR MISSING)

How accurately do you (add: yourself if lives with partner or other adults) know how much money you have at present, excluding any savings? I'm not interested in how much money you actually have, just how accurately you know how much you have. *Code one only*

Has no idea at all	[0]
Has only a rough idea of how much they have	[1]
Knows exactly or to within the nearest pound or two	[2]
<i>Don't know/refused</i>	[0]

Highest score on this question is 2

Highest score on this domain is 2+5+3=10

2.3 Planning ahead

Q9 PA01

Please tell me how strongly you agree or disagree with the statement 'I always make sure I have money saved for a rainy day'

Agree strongly	[3]
Tend to agree	[2]
Tend to disagree	[1]
Disagree strongly	[0]
<i>Don't know/refused</i>	[1]

Highest score on this question is 3

Q10 PA02

For how long would you *{text infill if lives with a partner 'and your partner'}* be able to make ends meet if you lost the main source of income coming into your household?

less than one month	[0]
More than one month but less than three months	[1]
More than three month but less than six months	[2]
More than six months but less than 12 months	[3]
12 months or more	[4]
<i>Don't know</i>	[1]
<i>Refused</i>	[3] ³

Highest score on this question is 4

³ We recoded the three respondents who had refused into this response category because 50% of respondents could manage for six months or longer. It will be necessary to think carefully about how missing values are treated.

Q11 PA03

How would you *{text infill if lives with a partner 'and your partner'}* find the money to meet an unexpected major expense? By major, I mean an expense equivalent to your whole income for a month, or more. Probe fully

Draw money from current account (excluding any overdraft facility)

Use existing savings/investments

Borrow the money (including use an overdraft)

Get help from family/friends

Some other way (e.g. sell something, earn extra money, cut spending)

Would not be able to find money

Don't know

Refused

Note that this question is not used in the indicator in its raw form, but is the basis for a derived variable. Scores for this question are 0=Not provided for; 1=Some provision 3=Sufficient provision (there is no category with a value of 2)

Highest score on this question is 3

Highest score on this domain is 3+4+3=10

2.4 Choosing products

There will be some people who have not chosen a financial product for a very long time, and others who have never chosen one. No score will be calculated for these respondents.

The baseline survey of financial capability asks about products chosen in the previous five years. It is acceptable to choose the length of time according to the needs of the study – clearly, if the purpose of the question is to look for changed behaviour then the period needs to be short, but if this is just an indicator of capability, then the length of the period is of less importance than the behaviour exhibited. Remember, however, that it will be possible to create a score for more people if the question asks about several years rather than just a few months.

Q12 CP01

Please could you tell me which, if any, of the following financial products you have personally taken out in the last five years, whether or not you still have them?

Priority coding : code the first product that applies and stop reading the list:

Investments e.g. *an equity ISA, PEP, unit trust or investment trust, investment bond, stocks and shares or an endowment policy that was not linked to a mortgage*

Mortgage

Life insurance, payment or income protection insurance, critical illness insurance

A credit card

A loan or other type of credit agreement

General insurance *e.g. car insurance, home insurance or private medical or dental insurance*

A savings account, eg a cash ISA and National savings and investment account or premium bonds

A current account

None of the above

Don't know

Refused

(Note that this question is not used in its raw form, but is the basis for identifying a product purchase. For this reason we do not include recommended values)

If 'none of above' 'don't know' or 'refused' at Q12 -CP01 skip to Q15 - SI01, otherwise:

Q13 CP02

Which ONE source of information or advice did you feel most influenced your decision about which {*text infill: type of product coded in CP01*} to take out?

Code one only. Prompt in relation to pre-codes if needed

Best buy information/comparison website /shopped around a lot of different sources [6]

Independent Financial Adviser (including relatives who are IFAs) [5]

Independent information in newspapers, magazines, radio or TV programmes etc [4]

Information collected from providers or providers websites [3]

Information about specific products received in the post, or seen or heard on adverts [2]

Friends or family [3]

No information collected at all [1]

Don't know/can't remember [0]

Refused [1]

Highest score on this question is 6

Q14 CP03

And which one of the following statements best describes the way you chose which {text infill: type of product coded in CP01} to take out? Read out and code one only

- | | |
|---|-----------|
| I chose one recommended by a professional adviser | [4] |
| I was influenced was in my final choice by a professional adviser | [3] |
| I was influenced in my final choice by a friend/relative | [2] |
| I made the choice entirely by myself | [1] |
| <i>Don't know/can't remember</i> | [0] |
| <i>Refused</i> | {missing} |

Highest score on this question is 4

Highest score on this domain is 6+4=10

2.5 Staying informed

Q15 SI01

Which, if any, of these things do you personally keep an eye on?

Read out. Code all that apply

- Changes in the housing market (SI01HM)
- Changes in the stock market (SI01SM)
- Changes in interest rates (SI01INT)
- Changes in inflation (SI01INF)
- Changes in taxation, e.g. income tax, inheritance tax, capital gains tax (SI01TAX)
- Changes in the job market (SI01JM)
- Changes in state pension, benefits and tax credits (SI01PBT)
- Best buys in financial products (SI01BB)
- None of the above (SI01NO)

Don't know (SI01_dk)

Refused (SI01_r)

Note that this question is not used in its raw form, but is the basis for a derived variable. In these pared down questions we count the number of things that the respondent keeps an eye on after creating a variable to combine keeping an eye on *either* housing market *or* interest rates.

Highest score on this question is 7

If 'none of the above' 'don't know' or 'refused' at Q15 – SI01 thank and close (or move on to additional questions); otherwise ask:

Q16 SI02

And how frequently do you tend to monitor [it/them]?

CODE ONE ONLY

At least once a week	[3]
At least once a month, but not once a week	[2]
Less than once a month	[1]
<i>Don't know</i>	[0]
<i>Refused</i>	[0]

Highest score on this question is 3

Highest score on this domain is 7+3=10

Thank and close (or move on to additional questions)

3 Creating indicators

This section describes in detail how each indicator should be created. Where examples of coding commands are given, these refer to SPSS command syntax. It is assumed that all necessary checks have been performed on the data to make sure that the data collection process was satisfactory and that the vast majority of respondents have given valid answers to all questions.

When the data is first prepared for analysis it will be important to give all categories separate response codes, including separate codes for 'don't know' and 'refused', so that exploratory analysis can be used to check that the survey instrument has captured reliable data.

However, once this process is complete, new versions of the variables should be created using the response category codes shown in Section 2, given as a value ranging from 0 to 6 in square brackets to the far right of each of the question response options that are used to define the indicators. These numbers refer to the response code that should be

used to create the financial capability indicator *score*; note that they combine some of the response categories and in some cases, certain values are excluded.

Within each question, the most capable response option is given the highest value response code, whilst the least capable response is coded as zero. Where there are several potential responses, the highest code will have a value that is greater than is the case where there are only one or two categories. This approach works in this particular instance because the relative importance of the questions in terms of indicating levels of financial capability has already been determined in the exploratory factor analyses that standardised the question response codes. However, it would not be appropriate to attach meaning to the relative magnitude of codes across questions – for example we are not trying to suggest that being able to manage for 12 months or more (which is scored as 5) is quantitatively the same as checking how much money is in your account every week (also scored as 5).

It is useful to use a particular suffix for the newly created versions of the variables so that it is easy to identify them in future analysis. For example, MEM01 could become MEM01r to identify the ‘recoding’ process that has been undertaken. We will use this notation in the instructions that follow.

Finally, the recoded response codes are added together to create the final scores.

3.1 Making ends meet

The making ends meet indicator is created from the first three questions above MEM01, MEM02 and MEM03.

The process

1. Recode the response categories of each variable to reflect the numbers in square brackets on the right hand side of the categories.

Save each variable with the suffix r.

In SPSS the Recode command can be used to do this simply once you know the original values of the response categories:

e.g. recode MEM01 (1=2) ...(else=copy)... into MEM01r

Label the values according to the recoding.

2. Check that the recoding has worked by cross-tabulating the original variable with the new recoded version.
3. Compute the indicator score⁴

compute MEMsc1=MEM01r +MEM02r + MEM03r

4. Label MEMsc1 “MEM score adding MEM01r+MEM02r+MEM03r”.

⁴ In this example we use the + sign, because this will exclude observations with missing values, which will prevent missing data from skewing the scores.

3.2 Keeping track

This domain requires some initial work to derive the variables before they can be used to create an indicator. It is important to follow the derivation steps closely.

The process

1. Create a new variable that describes whether the respondent knows how much money they have. This variable will take the value of either KT02 or KT02b depending on whether or not the respondent uses a bank account (which is asked in KT01). One way of doing this in SPSS is to create a new variable, and then add in the values, as follows:

Compute $KT02x=KT02$.

If $sysmis(KT02)$ $KT02x=KT02b$.

2. Label the variable KT02x “Knowing how much money they have”.
3. Remember to check that the values of KT02x reflect the values of the original two variables.
4. Create a new version of KT03 (KT03x) that gives a value of 5 to all those people who do not use a bank account to manage their money (those who answered No at KT01 and therefore have missing data in KT03)
5. Create a new version of KT04 (KT04x) that gives a value of 3 to all those people who do not use a bank account to manage their money (those who answered No at KT01 and therefore have missing data in KT04)
6. Recode the categories of each of the derived variables (i.e. those with the x suffix) to reflect the numbers in square brackets on the right hand side of the categories.

Save each variable with the suffix r.

Label the values according the recoding.

7. Check that the recoding has worked by cross-tabulating the derived variable with the new recoded version.
8. Compute the indicator score

compute $KTsc1=KT02r +KT03r + KT04r$

9. Label KTsc1 “KT score adding $KT02r +KT03r + KT04r$ ”.

3.3 Planning ahead

The indicator variable for planning ahead uses two questions and one derived variable: PA01, PA02 and a variable derived from PA03.

The process

1. Create a new variable that summarises the responses to PA03. The easiest way to do this, is to use a logical approach to creating the variable.

Compute PA03x=0.

If the respondent would draw from their current account or use savings, recode PA03x to be 3.

If PA03x is now 3 but the respondent also answers yes to any of the other options, PA03x should be recoded to 1.

All other respondents should now have a score of 0. This will include those who refused.

Unless you have reason to believe otherwise the proportion of respondents with a value of 1 should be small and it is worth checking this by producing a frequency table of the variable.

Check that the derived variable has worked by cross tabbing with the original variable, for example make sure that none of the respondents with a score of one have indicated that they have money that they could draw on.

2. Label the variable PA03x “Finding money for major expense”.
3. Label the values of PA03x to reflect the categories of the derived variable.
4. Recode the categories of PA01 and PA02 to reflect the numbers in square brackets on the right hand side of the categories and copy PA03x for consistency.

Save each variable with the suffix r.

Label the values according the recoding.

5. Check that the recoding has worked on PA01 and PA02 by cross-tabulating the original data with the new recoded variable.
6. Compute the indicator score

compute PAsc1=PA01r +PA02r + PA03r

7. Label PAsc1 “Planning ahead score adding PA01r +PA02r + PA03r”.

3.4 Choosing products

The indicator variable for choosing products uses CP02 and a variable derived from CP03.

The process

1. Create a new variable that summarises the responses to CP02:

Compute CP02x=99.

If the respondent chose best buy, CP02x=6

If the respondent chose IFA, CP02x=5

If the respondent chose independent information from papers etc, CP02x=4

If the respondent chose information from providers, CP02x=3

If the respondent chose information received through the post, CP02x=2

If the respondent chose 'no advice', CP02x=1

If the respondent chose 'don't know, CP02x=0 (reflecting no active decision making)

There may be some respondents who still have a value of 99 once this recoding has been completed. Check that they are respondents with missing data – if not recode them accordingly. We then recommend coding those who still have a value of 99 to 1, but as always this depends on the number of respondents with missing data.

2. Label the variable CP02x "Main source of info/advice".
3. Label the values of CP02x to reflect the derived categories.
4. Recode the categories of CP03 to reflect the numbers in square brackets on the right hand side of the categories and copy CP02x for consistency.

Save each variable with the suffix r.

Label the values according the recoding.

5. Check that the recoding has worked on CP02 by cross-tabulating the original data with the new recoded variable.
6. Select the respondents who have chosen a product, as these are the only ones for which you can create a score. This could be done by using the command **filter by**. It will be necessary to find a way of identifying those who have chosen a product first, perhaps by creating a new (0,1) variable from CP01 – that is a binary variable that takes the value 0 if the respondent has not chosen a product, and 1 if they have.
7. Compute the indicator score for those who have chosen a product.

compute CPsc1=CP02r + CP03r

8. Label CPsc1 "Choosing product score adding CP02r + CP03r".

When analysing the choosing product scores it is important to leave the filter on, so that the analysis only looks at those with a valid score. However, remember to type the command **filter off**, before undertaking other analysis.

3.5 Staying informed

The indicator variable for staying informed uses SI02 and a variable derived from SI01.

The process

1. Create a new variable that identifies people who keep an eye on *either* housing market (SI01HM) *or* interest rates (SI01INT).

Compute SI01c=0.

If any (1, SI01HM, SI01INT) SI01c=1.

2. Create a new variable, SI01x, that counts the number of indicators mentioned in SI01, remembering to exclude SI01HS, SI01INT, but include SI01c. Do not to include categories such as 'don't know' in the counting process.

Assuming that the options have been coded 0 if they are not relevant and 1 if they are, the easiest way to count the indicators is to calculate the sum of the variables as follows:

Compute $SI01x = \text{sum}(SI01c, SI01SM, SI01INF, SI01TAX, SI01JM, SI01PBT, SI01BB)$.

3. Label the variable SI01x "Number of indicators".
4. Recode the categories of SI02 to reflect the numbers in square brackets on the right hand side of the categories and copy SI01x for consistency. Note that anyone who was not routed to this question will need to get a score of 0.

Save each variable with the suffix r.

Label the values according the recoding.

5. Check that the recoding has worked on SI02 by cross-tabulating the original data with the new recoded variable.
6. Compute the indicator score.

compute SIsc1=SI01r + SI02r

7. Label SIsc1 "Staying informed score adding SI01r + SI02r".