



Nationaal Instituut voor Budgetvoorlichting

Competencies for financial resilience

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1. Introduction

1.1 Background

The mission of Nibud (the National Institute for Family Finance Information) is to ensure that everyone in the Netherlands is capable of sound financial management, now and in the future. Since its beginnings in 1979, Nibud has been carrying out and collating studies into how people manage their money, and supporting people with practical advice and tools. Our aim is to prevent financial problems arising.

Combination of factors

Before you can prevent money problems you need to know what causes them. There is usually no single cause, but a combination of factors, including an individual's personal circumstances and situation, their personality and motivation, their knowledge and skills, and the interaction between these factors (Madern, 2015; Van der Schors & Van der Werf, 2016).

Just as there is never a single reason for people's money problems, there is no uniform approach to preventing or tackling them. A method that works for one person may not help another, and vice versa. To decide which approach works best in which case, Nibud distinguishes five focus areas. These are:

- Environmental factors that have an impact – positive or otherwise – on people's spending behaviour;
- Behaviour change;
- Financial and social support for those unable to cope, given their circumstances;
- Motives for action and behaviour;
- Financial education, i.e. teaching the necessary financial knowledge and skills.

Society as a whole, from government authorities to providers of financial and social services, as well as individuals themselves, can take action in one or more of these areas to help prevent financial problems.

Financial education

One important focus area is financial education, or helping people gain the necessary financial knowledge and skills. Nibud's work in this area is based on the competencies for financial resilience, which describe the knowledge and skills people need for sound financial management. They are the basis for Nibud's information and advice to various target populations. Financial professionals, including debt counsellors, money advisers, volunteer organisations in the field of family finance and other care and service providers, also use these competencies to gauge their clients' financial skills and behaviour and what areas they still need to work on.

The competencies for financial resilience:

- are adapted to a world where financial transactions and communications are increasingly digital, and where individuals bear more and more financial responsibility;
- tie in with the latest national and international publications on financial resilience (financial literacy, financial capability);
- are measurable and mutually exclusive, so that they can be used to determine an individual's degree of financial resilience.

1.2 Learning outcomes for school-age children

Chapter three describes the competencies in detail. Apart from competencies for adults, Nibud has also published a separate paper containing learning outcomes for money management by children. It specifies learning outcomes for four age groups (6 to 8, 9 to 11, 12 to 14 and 15 to 17), describing the knowledge and skills children need to avoid financial problems in later life. The learning outcomes are aligned with the competencies for financial resilience set out below.

2. Using the competencies

2.1 Aim

The competencies describe the knowledge and skills an individual must have in order to be financially resilient. Nibud defines the term 'financial resilience' as follows:

An individual is financially resilient if their income and expenditure are in balance, now and in the future.

We have deliberately chosen to use 'resilience' rather than 'self-reliance'. We believe that people are financially resilient if they:

- have the skills needed to keep their income and expenditure in balance, or
- are aware of the fact that they lack certain skills and therefore seek the help of others. In this way, they too ensure that their income and expenditure are in balance.

2.2 Target population

The competencies apply to **every adult living in the Netherlands**. In principle, Nibud aims for everyone to possess the skills described in the competencies. We use the term 'in principle', because there are groups in society who will struggle to acquire these skills, or be unable to learn them at all, but with the help of others they may nevertheless be financially resilient.

Professionals like debt counsellors, money advisers, volunteer organisations in the field of family finance and other care and service providers can use the competencies to assess whether a client is financially resilient, whether they need support in developing their competencies, and if so, what kind of support.

2.3 Overview of the competencies

There are four main competencies, three of which are further broken down into sub-themes. This document describes the behaviour and skills associated with each competency.

Competency 1: Acquire sufficient income to make ends meet

Competency 2: Organise money matters

Sub-themes:

- Use secure and appropriate payment methods;
- Keep household accounts in order;
- Record and monitor income and expenditure.

Competency 3: Spend money responsibly

Sub-themes:

- Make choices;
- Be a critical consumer;
- Identify and deal with financial shortfalls;
- Borrow sensibly.

Competency 4: Be prepared for both the expected and the unexpected

Sub-themes:

- Take account of future wishes and circumstances;
- Anticipate unforeseen circumstances;
- Choose financial products with care.

2.4 Skills versus behaviour

A person may have the necessary skills, but that doesn't mean they will always use them. There may be various reasons for this.

Have the skill, but don't need it

There are many reasons why a person might not check their income and expenditure every month, or compare the prices of products. They may have more than enough money to make ends meet, for example. But we would still recommend that every individual is capable of doing this. After all, circumstances could cause a sudden decline in income, making it important to monitor income and expenditure.

Have the skill, but don't use it

Sometimes people know it would be sensible to act in a certain way, but yet don't. They might know very well how to save money, for instance, and be able to do so in theory – but they don't in practice. There is a difference between knowledge, capability and actual behaviour (Jungmann & Madern, 2016). Publications and policy now devote increasing attention to this matter (Tiemeijer, 2016 & WRR, 2017).

Whether people ultimately put their skills into practice depends on all kinds of factors, including:

- motivation;
- self-efficacy (innate confidence in your own ability to carry out a certain task);
- personality and attitudes to/opinions on the required behaviour;
- social norms and pressures in relation to the required behaviour.

It is beyond the scope of this paper to examine these factors in depth. For further background information, see the publications of Madern (2015), Jungmann & Madern (2016), Tiemeijer (2016), Van der Schors, Van der Werf & Schonewille (2016), Madern, Weijers, Van der Werf & Van Gaalen (2015) and Azjen (2011) listed in the bibliography below.

Environment and circumstances

A person's environment and circumstances also have an impact on their behaviour. Many studies show that the way choices are presented (including default options) greatly influences people's decisions and subsequent behaviour (e.g. Thaler & Sunstein, 2009; Van der Steeg & Waterreus, 2015). This shows that people are not entirely rational. Much of our behaviour is subconsciously steered.

More attention has been devoted in the past few years to the effect of personal circumstances on behaviour. Research into shortage of money has attracted considerable interest since 2013, when Mullainathan and Shafir showed that people display different financial behaviour if they don't have enough money. As a result, money worries predominate, causing them to make short-term, ad hoc decisions instead of looking further ahead and making considered choices.

2.5 Basic skills for financial resilience

The competencies described in this paper focus on the knowledge and skills that contribute to people's financial resilience.

The factors that influence behaviour, described above, also play a role, as they determine whether having specific skills will lead to the desired behaviour. In addition to the financial competencies, you also need the following basic skills to be financially resilient:

- numeracy skills;
- literacy skills;
- digital skills;
- being able to ask others for help if necessary.

Studies by the Reading and Writing Foundation showed that people with poor literacy and numeracy skills are overrepresented among recipients of debt counselling (Madern, Jungmann & Van Geuns, 2016). Digital skills are also becoming more essential, given increasing online communications.

Social networks

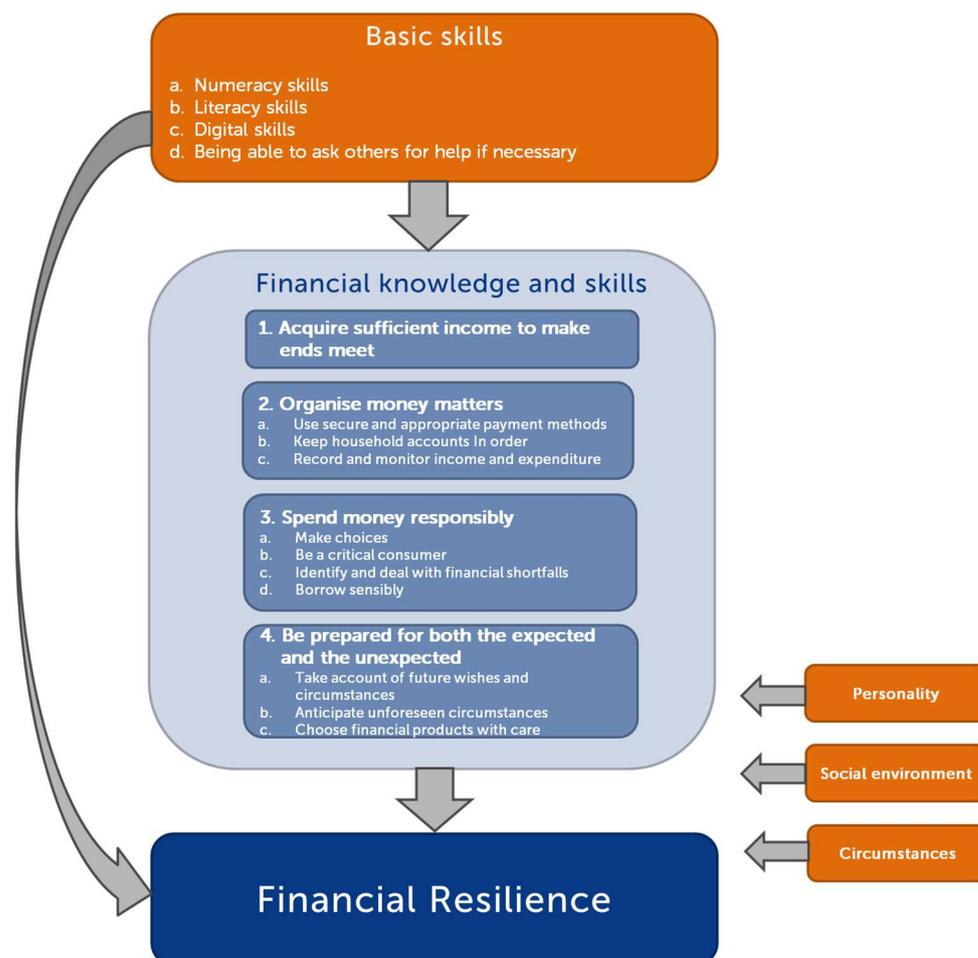
'Asking for help' means that individuals call on the knowledge and advice of people they know, or of volunteer organisations or financial service providers because they are aware that their own knowledge and skills fall short. So it is important that they have access to a relevant network and to sources of help and information.

People may ask for help in dealing with a range of financial issues. They may need help putting their household finances in order or getting an overview of their income and expenditure. They may have questions about taxes or allowances, need advice about taking out insurance or want to know more about a financial product. Many studies have been carried out into the impact of social networks on an individual's wellbeing, behaviour and performance. But little is known about the direct relationship between social networks and financial problems. Madern (2015) showed that people who experience little support from their social environment are more likely to fall into payment arrears and less likely to have their household finances in order.

In describing the competencies for financial resilience, we have assumed that people possess the above-mentioned basic skills.

2.6 Diagram

The diagram below summarises sections 2.3 to 2.5. It shows which factors influence and contribute to financial resilience. Whether an individual is financially resilient depends not only on the basic skills and financial knowledge and skills they have, but also on whether these capabilities result in the desired behaviour. And that in turn depends in part on their personality, environment and circumstances.



3. The competencies: the necessary knowledge & skills

The four main competencies describe the desired behaviour. The sub-themes describe the knowledge and skills needed in order to be financially resilient.

Competency 1: Acquire sufficient income to make ends meet

Desired behaviour

The individual acquires sufficient income to provide for themselves, taking account of their rights, commitments and responsibilities.

Skills

Individuals are

- capable of acquiring income at least equivalent to the minimum income;
- capable of applying for allowances and other grants, and reporting changes, if necessary;
- aware of their financial rights, commitments and responsibilities and capable of acting accordingly, whether they are in employment, self-employed or a benefits recipient;
- capable of filling in their tax returns.

Competency 2: Organise money matters

Desired behaviour

The individual manages and monitors payments, keeps their household accounts up to date, and keeps track of income and expenditure, making sure to balance them.

Skills

Individuals are capable of:

- using secure and appropriate methods for making payments;
- keeping their household accounts in order;
- recording and monitoring income and expenditure.

Use secure and appropriate payment methods

Individuals are capable of

- managing current and savings accounts;
- arranging and managing direct debit payments;
- using various payment methods safely;
- checking whether webshops are reliable and secure.

Keep household accounts in order

Individuals are capable of

- opening and processing financial correspondence, by letter or email;
- organising and storing important documents;
- applying for a DigiD (digital identity) and using it safely;
- accessing their personal online environments safely if they have been notified of a change;
- paying their bills on time;
- discussing joint finances with their partner, if they have one.

Record and monitor income and expenditure

Individuals are capable of

- monitoring the balance on their bank accounts;
- checking money transfers, direct debit payments, bills and allowances to make sure they are correct;
- making an overview of average incomings and outgoings by month and year;
- making an overview of assets, payment arrears and other debts;
- determining what amount is needed each month for essential household expenditure, and what can be spent on non-essentials;

Competency 3: Spend money responsibly

Desired behaviour

The individual spends their income in such a way that their expenditure matches their personal preferences and budget, ensuring that income and expenditure are in balance in the short term.

Skills

Individuals are capable of:

- making choices in how they spend their money;
- acting as critical consumers, comparing and assessing prices and products, asserting their rights and meeting their commitments;
- identifying financial shortfalls and dealing with them;
- borrowing money sensibly, if necessary.

Make choices

Individuals are capable of

- adapting expenditure to their budget;
- setting spending priorities based on necessity;
- taking account of compulsory and other expected expenditure;
- making considered choices on how they will use any extra income;
- making considered choices on how they will pay any extra costs;
- resisting temptation from advertising, social pressure and so on;
- taking account of periods in the year when they have less money to spend ('expensive and inexpensive months') and more or less income ('rich and poor months').

Act as critical consumers

Individuals are capable of

- assessing special offers critically;
- taking account of fixed, variable and extra costs in comparing products and subscriptions;
- taking account not only of the price and quality, but also of the conditions and their own personal situation and wishes in choosing a product or subscription;
- comparing costs, risks, duration and other conditions when choosing a financial product (insurance, savings or investment products and loans);
- evaluating, reconsidering, changing or stopping auto-renewal subscriptions;
- finding out what their rights and obligations are as consumers;
- asserting their rights as consumers;
- making use of objection or appeal procedures;
- using agencies or organisations that can provide assistance in financial matters.

Identify financial shortfalls and deal with them

Individuals are capable of

- seeing when their income is insufficient to meet all their financial commitments;
- dealing with financial shortfalls as they occur.

Borrow responsibly

Individuals are capable of

- borrowing money only if they can pay it back, with interest, within the agreed period;
- considering alternatives to a loan before deciding to borrow money;
- taking account of the financial consequences of hire purchase, loans, overdrafts or using a credit card before deciding on any of these forms of credit.

Competency 4: Be prepared for both the expected and the unexpected

Desired behaviour

The individual takes account of the fact that both expected and unexpected wishes and circumstances can affect their medium and long-term financial situation. They adapt current expenditure accordingly and choose financial products with care, to ensure that income and expenditure will be in balance in the future, too.

Skills

Individuals are capable of

- taking account of future wishes and circumstances;
- anticipating unforeseen circumstances;
- choosing financial products with care.

Take account of future wishes and circumstances

Individuals are capable of

- drawing up an annual budget with expected income and expenditure;
- setting short, medium and long-term financial goals and taking them into account when spending money;
- taking account of future expenditure and circumstances in their current spending;
- determining how they will cope with an expected drop in income or rise in expenditure due to changing circumstances;
- assessing whether they will have sufficient income to continue meeting their commitments, given planned events;
- putting money aside for large items of expected expenditure;
- calculating whether they can afford the contributions, interest and repayments associated with a financial product within their current budget.

Anticipate unforeseen circumstances

Individuals are capable of

- adapting their income and expenditure to unforeseen changes in their circumstances;
- determining whether they will have sufficient income to continue meeting their financial commitments should there be an unforeseen change in their circumstances;
- determining how they will deal with an unexpected drop in income should there be an unforeseen change in their circumstances;

- determining how they will deal with an unexpected rise in expenditure should there be an unforeseen change in their circumstances;
- putting aside money for unforeseen expenditure;
- understanding the various factors (e.g. fluctuating interest rates, inflation and exchange rates) that can influence their personal financial situation;
- determining whether changes to financial regulations and developments on the financial markets apply to their situation.

Choose financial products with care

Individuals are capable of

- deciding what types of insurance cover are necessary or advisable in their situation;
- deciding whether it is necessary or advisable for them to save or invest money, or take out insurance or a loan for a specific purpose, considering their personal financial situation and preferences;
- comparing and considering the returns on and risks associated with various types of financial products.

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