Measuring Financial Capability in Children and Young People:

What drives financial behaviour?

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Contents

1 Key Findings

This report uses the Children and Young People's Financial Capability Survey for the UK to help us to understand different aspects of children and young people's financial capability and how they interact.

The analysis groups different aspects of financial capability into the following composite measures:

<table>
<tr><th colspan="3">Financial Capability Behaviours (children's actions with money):</th></tr>
<tr><td colspan="3">• day-to-day money management
• active saving</td></tr>
<tr><th colspan="3">Financial Capability Enablers and Inhibitors</th></tr>
<tr><td>Ability (children's financial knowledge and skills):
• can carry out transactions
• knowledge of adult responsibilities
• knowledge of financial products
• knowledge of financial concepts
• financial numeracy</td><td>Connection (children's engagement with money and access to financial products/services):
• child responsible for financial decisions
• engagement with bank account
• involvement in household spending
• experience with phone payments
• discussing money
• digital engagement</td><td>Mindset (children's values and attitudes towards money):
• savings mindset
• understands money's value
• shopping around
• financial confidence
• goal setting
• attitude to financial situation</td></tr>
</table>

This analysis then explores how these Enablers and Inhibitors interact together to influence a child's financial Behaviour and helps us understand the role played by other factors such as parental influence, child and household demographics, the child's own skills, and a child's own financial means (the money they have to use).

The results suggest there are **direct** links between children's financial Behaviour and:

- their financial capability Enablers and Inhibitors, especially Mindset and Connection;
- their financial means – whether children receive any money and whether they receive it regularly; and
- parental influence – the parents' own financial capability as well as their attitudes and behaviours towards their children and their finances.

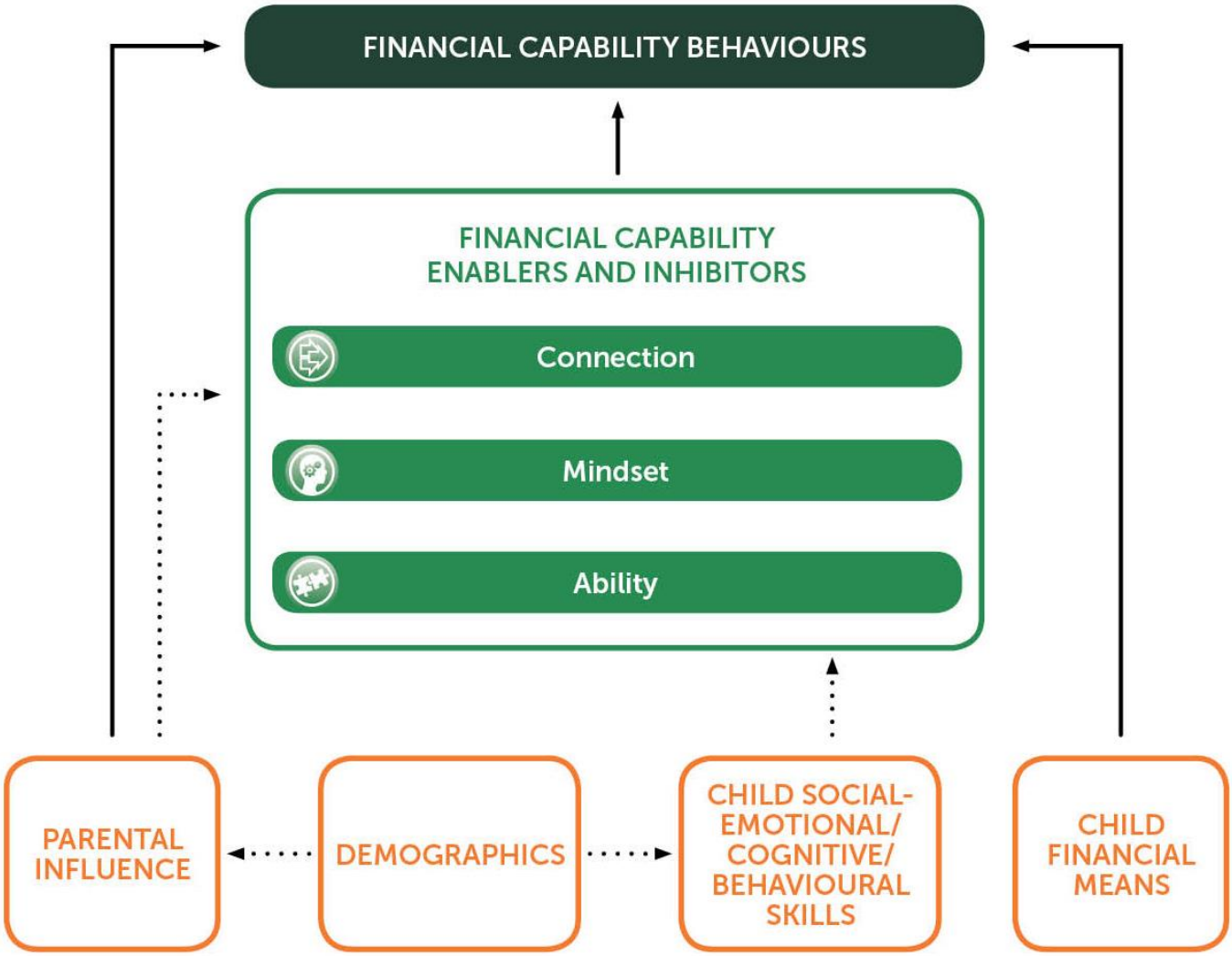
They also suggest **indirect** links between parental influence and children's social-emotional/cognitive/behavioural skills and children's financial Behaviours. These are mainly channelled through associations with children's mindset and connection.

Demographics appear to have less of a role, with any links to financial Behaviour largely being channelled through parental influence and children's cognitive/behavioural skills. However, this does not mean that they are not potentially a useful tool for targeting support as they are still associated with increased needs in many cases.

Ability variables also seem to play a relatively minor role in predicting children's financial Behaviour. However, this is in need of further exploration as many of the concepts asked about have much more relevance to adult finances, and so may be more influential when these children become financially independent and able to access credit.

These relationships can be summarised by Figure 1 below.[1]

Figure 1: Summary of relationships with financial capability and key drivers of financial behaviour



[1] The direction of the arrows is based on intuition – further longitudinal data would be useful to confirm these.

The specific key drivers for active saving and day-to-day money management can be seen in the Figures 2 and 3 below:

Figure 2: Key drivers of day-to-day money management

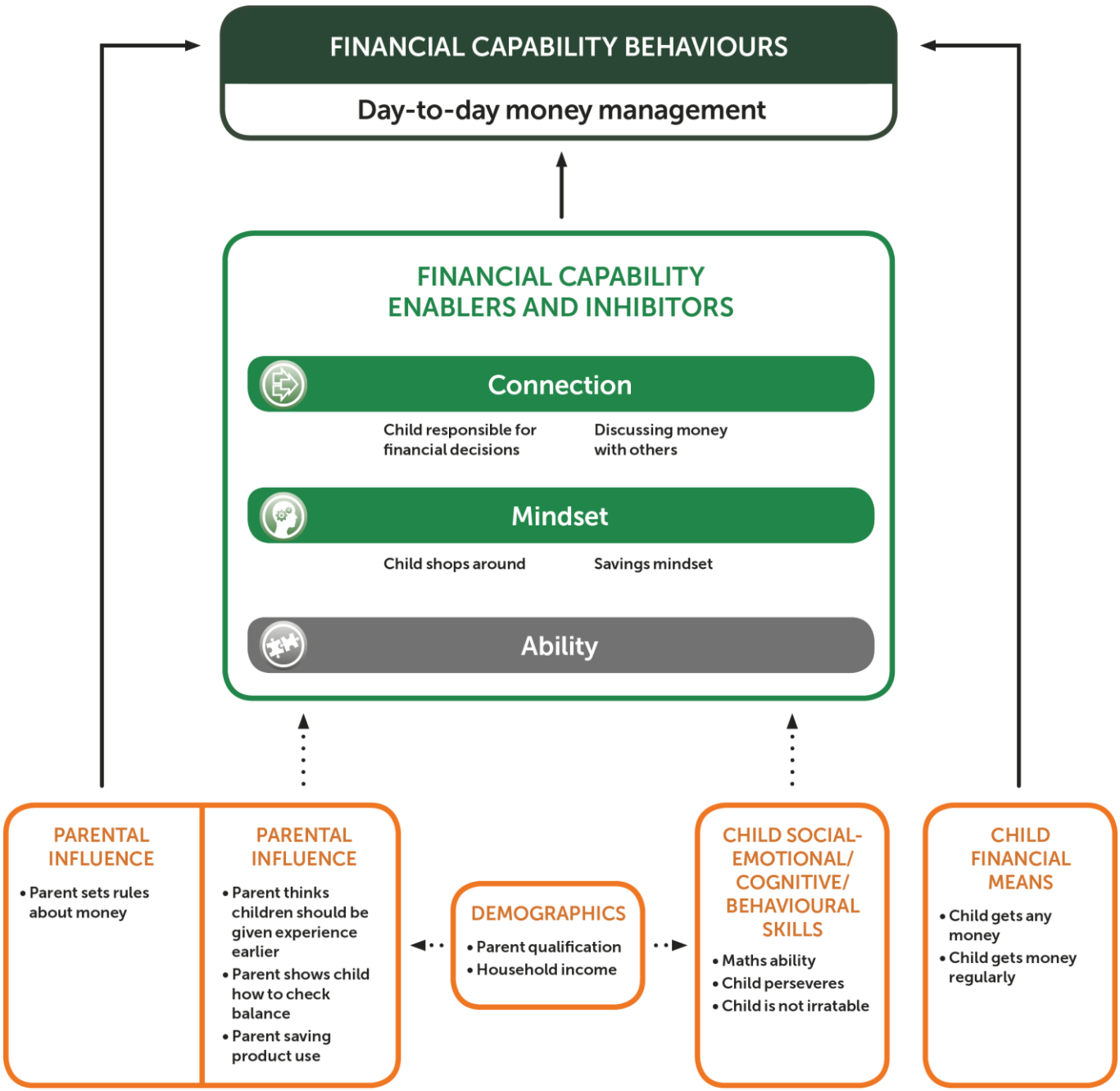
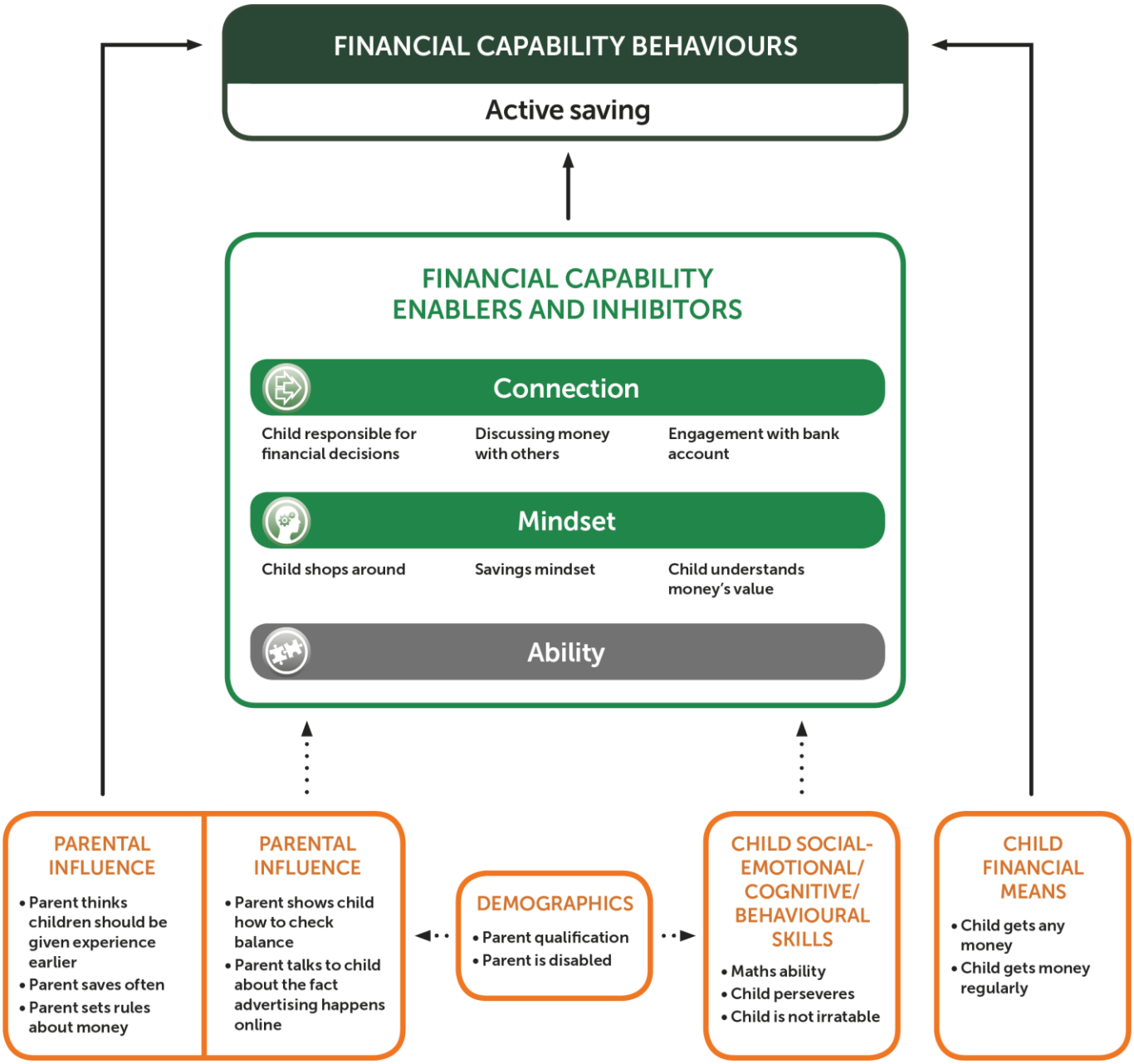


Figure 3: Key drivers of active saving



Understanding these relationships is crucial to help us identify how and where to intervene to influence and improve children's financial capability and will inform both targeting and tailoring of interventions.

The findings from this analysis will be essential inputs to a detailed analysis of the financial capability needs of children and young people to be published alongside this report. This Needs Analysis will feed into a Gap Analysis comparing current need to financial education provision and evidence about what is likely to be most effective in meeting needs. This will inform the Money Advice Service's future children and young people Commissioning Plan, laying out how we believe resource can best be targeted to improve children and young people's financial capability, to be published in autumn 2018.

2 Introduction and Objectives

In 2016 the Money Advice Service carried out the Children and Young People's Financial Capability Survey for the UK, to better understand current levels of financial capability among children and young people. This was a major piece of research involving over 4,000 interviews with a nationally representative sample of children and young people aged 7–17[2]. A parent or carer for each child was also interviewed as part of this research, to help us understand the role they play in influencing their child's financial capability.

The survey generated a wealth of data about the financial capability of the UK Children & Young People (CYP) population, some of which is covered in our report *The Financial Capability of Children, Young People and their Parents in the UK*, which was published in March 2017. However, we were keen to mine the data further to ensure our conceptual understanding of financial capability is fully grounded in the data. This is very similar to the process we went through to understand the building blocks of adult financial capability.

This report has two main objectives:

1. TO UNDERSTAND THE KEY COMPONENTS OF CHILDREN AND YOUNG PEOPLE'S FINANCIAL CAPABILITY

To do this we have created composite (summary) measures of children's financial capability, organised around the Financial Capability Strategy's Adult Financial Capability model[3] and the CYP outcomes framework[4]. Specifically, these measure aspects of children's:

- financial capability Behaviours – children's actions with money.
- financial capability Enablers and Inhibitors – comprised of:
  - Mindset: children's values and attitudes towards money
  - Connection: children's engagement with money and access to financial products/services
  - Ability: children's financial knowledge and skills

These Enablers and Inhibitors are the aspects of financial capability that make positive financial behaviours either easier or more difficult for people to achieve. They are therefore some of the levers that we need to pull, or the barriers that we need to overcome.

2. TO UNDERSTAND THE KEY DRIVERS OF CHILDREN'S FINANCIAL BEHAVIOUR

To do this we explore the role of children's financial Enablers and Inhibitors (Mindset, Connection and Ability) and other factors in predicting financial Behaviour and whether these factors vary by the age of the child. We also explore:

- demographics – both child and household characteristics;
- parental influence;
- children's social-emotional/cognitive/behavioural skills; and
- children's financial means (do they get money regularly and how much do they get).

This is useful as it provides insight into the key determinants of children's financial behaviour and how these factors are related to each other. This in turn informs our understanding of where interventions are likely to be effective in improving children's financial behaviour, and gives us clues as to how best to target these.

The following two chapters explore the objectives outlined above and the final chapter outlines how this work will be taken forward and fits into our wider work on children's financial capability.

[2] Children aged 4–6 were also included in the survey but have not been included as part of this analysis because the questionnaires between the ages are too different to allow meaningful comparison.

[3] *Financial Capability in the UK 2015* (Money Advice Service, 2015).

[4] The CYP Outcomes Framework was produced by the Money Advice Service and is designed to help organisations plan and evaluate their work, by listing outcomes in different areas of financial capability (that would be hope to be seen) for children and young people at different ages between 3 and 18. It can be found at: www.fincap.org.uk/outcomes_children_and_young_people.

3 Constructing financial capability composite measures for children and young people

3.1 Context

This section explores the data used to construct the composite measures, the motivations behind constructing composite measures, and the context of the adult composite measures.

3.1.1 The CYP Survey

This analysis uses data on children from the Money Advice Service's UK Children and Young People's Financial Capability Survey ('the CYP FinCap Survey'). This is a nationally representative study (in terms of age, region of residence and other demographic characteristics) of children aged 4–17. Boost interviews were conducted in each of the devolved nations to ensure sample sizes were large enough for analysis.

For the purpose of this report we have concentrated the analysis on children aged 7–17 and have not included children aged 4–6 as the questionnaires between the ages are too different to allow meaningful comparison. A total of 4,414 children aged 7–17, and a parent[5] or carer for each child, were interviewed as part of the survey.[6]

3.1.2 Why make composite measures?

Composite measures are useful for measuring concepts that cannot be easily summarised by one indicator or survey question. As an example, the measurement of deprivation in England comprises more than just average income in an area – it also includes crime, education, housing, health and employment factors.[7]

Similarly, children's financial capability is not easily summarised by individual questions. For example, a child's day-to-day money management comprises more than just whether a child knows how much money they have. A more useful measure might include:

- Do they know how much is in their account?
- Do they plan what they are going to spend their money on?
- Do they keep track of their spending?

Composite measures also reduce the number of variables that are needed to explain how financial capability is measured and make it easier to understand and manageable to analyse.

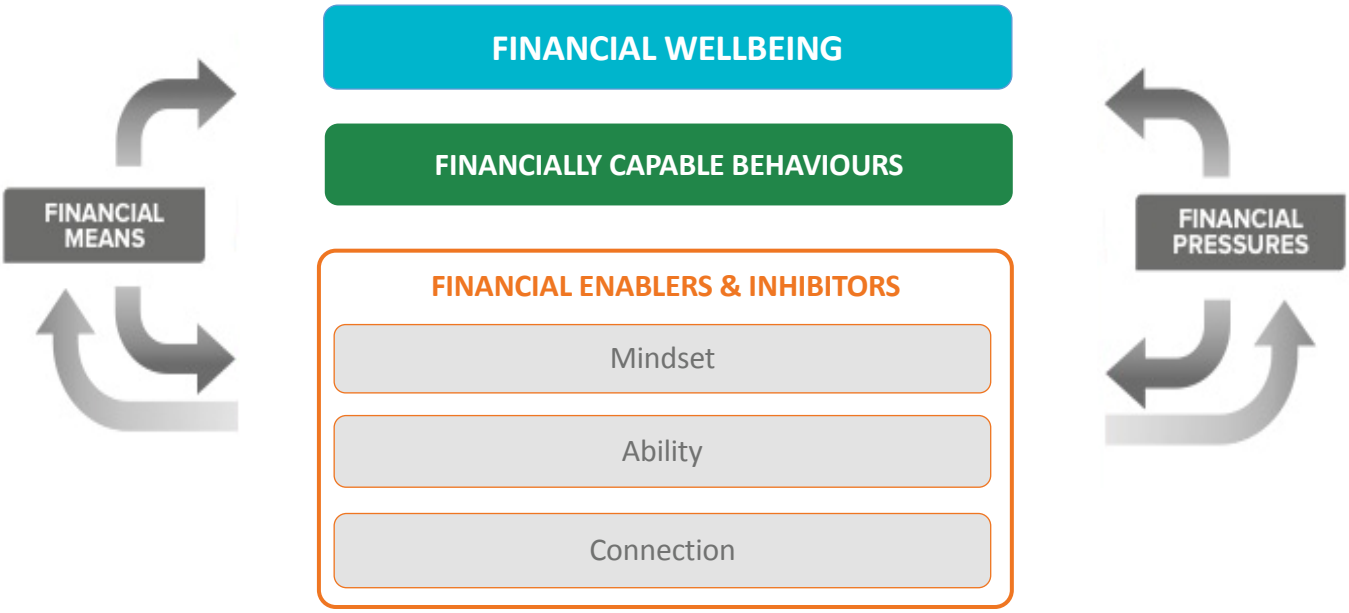
However, there is currently no consensus on what the key aspects of children's financial capability are. As a result, this analysis uses a data-led methodology to derive composite measures, similar to how the Money Advice Service's adult composite measures were constructed.[8]

[5] Throughout the analysis, when referring simply to a 'parent', this term covers the information collected from the responding child's parent or carer.
[6] Further detail on the survey can be found in *The Financial Capability of Children, Young People and their Parents in the UK – Technical Report* (Money Advice Service, 2017).
[7] *English Indices of multiple deprivation 2015* (DCLG 2015).
[8] *Defining, measuring and predicting financial capability in the UK* (Money Advice Service, 2016).

3.1.3 The Financial Capability Strategy's adult composite measures and financial capability framework

The Money Advice Service's adult composite measures took a data-led approach to construct key measures of financial capability amongst adults. This allocated questions in the Money Advice Service's Adult Financial Capability survey[9] to each area of Financial Capability Strategy's Adult Financial Capability model (Figure 4) and then grouped together those that were most highly correlated. These groupings formed the final composite measures.

Figure 4: The Financial Capability Strategy's Adult financial capability model



A similar approach was taken for the CYP measures. In addition, the CYP outcomes framework and question bank were also used to help inform the thinking and grouping of the indicators.

3.2 Making the children's measures

The approach used for adults provided a useful starting point for constructing the CYP measures. However, there were some key differences:

3.2.1 Different outcomes for CYP than for adults

Financial wellbeing is not the ultimate outcome for children and young people. Financial wellbeing in the adult building blocks work includes a person's:

- **current financial wellbeing** – comprised of the burden of bills and credit repayments, their subjective financial situation and their ability to respond to an income shock; and
- **longer-term financial security** – comprised of their levels of saving (relative to their income) and their use of longer-term saving and insurance products;

However, financial wellbeing for children and young people is not exactly equivalent to financial wellbeing for adults: the definition of financial wellbeing used for adults becomes relevant only when people have achieved financial independence. Children are for the most part unable to access these insurance/savings/credit products and as dependents they are (for the most part) protected from the commitment of household bills. As a result, it is unclear how relevant this is as a concept to children and young people and therefore it is not the ultimate outcome of financial capability for this age group.

[9] *Financial Capability in the UK 2015* (Money Advice Service, 2015).

When considering financial capability in children and young people it is therefore more useful to focus on measures of children's Enablers and Inhibitors (their financial Mindset, Connection, Ability) and their financial Behaviour. The assumption being that through developing these Behaviours and Enablers and Inhibitors children are likely to have better financial wellbeing in adulthood.[10]

3.2.2 Differences in adult and CYP questionnaires

The CYP FinCap Survey uses a different questionnaire to the adults'. This means that it is not possible to directly replicate the adult composite measures with the CYP survey. However, the approach taken is as similar as possible given the constraints of the questionnaire and the different context of CYP.

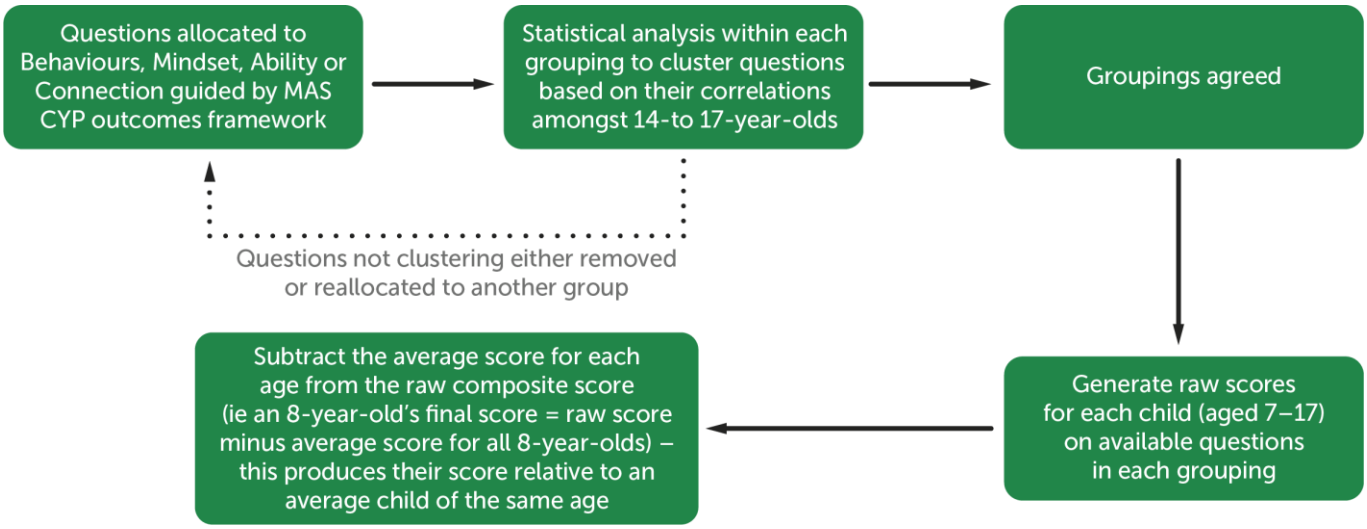
A further challenge of this questionnaire is that different questions were asked of children at different ages. This was because younger children were unlikely to understand more complicated financial concepts. This makes the construction of a single consistent measure for individual components difficult. However, the focus on whether children are prepared for adult financial responsibility emphasises the need for a measure that can be used across age cohorts.

This is a similar challenge to measuring children's progress through school: it is not appropriate to ask the same mathematics questions of a 7-year-old as it is a 16-year-old. More useful is to track their progress relative to their peers as expectations increase – in a sense, their score relative to an average child of the same age. This focus on progress relative to a child's peers provides scope for expectations to increase cumulatively, and provides information on groups that are not keeping up with their peers across age-groups or those that struggle to grasp new concepts as they become expected.

3.3 Creating and interpreting the measures

This idea of looking at progress relative to peers within the same age-group underpins the approach used to construct these measures. The process can be summarised by Figure 5.

Figure 5: Overview of the construction of CYP composite measures



These measures therefore track those CYP who have more capable financial Mindset, Connection, Ability and Behaviours relative to the average for their age group based on the indicators included.[11]

[10] The Money Advice Service is investigating ways to test this assumption in upcoming research.

[11] The grouping of variables was also conducted on all variables together and obtained similar results. More technical detail on their construction is available in the technical report.

At a high level the resulting measures can be summarised by Figure 6.

Figure 6: Overview of the composite measures

Financial Capability Behaviours:		
• day-to-day money management • active saving		
Financial Capability Enablers and Inhibitors		
Ability: • can carry out transactions • knowledge of adult responsibilities • knowledge of financial products • knowledge of financial concepts • financial numeracy	**Connection:** • child responsible for financial decisions • engagement with bank account • involvement in household spending • experience with phone payments • discussing money • digital engagement	**Mindset:** • savings mindset • understands money's value • shopping around • financial confidence • goal setting • attitude to financial situation

The constituent questions for each of these composites are outlined in the next section (in order of the size of their contribution to the final measure). They include a mix of questions asked of parents and of children themselves. Where a question is asked of a parent this is clearly marked in the table.

3.4 Final Composite Measures

3.4.1 Enablers and Inhibitors

Ability Composites

Knowledge of adult responsibilities: What do adults have to pay for?
Water at home
Council Tax
Internet at home
Rent or mortgage

Financial Numeracy
Understands interest rates
Understands interest and inflation
Can read a bank statement
Can read a payslip

Knowledge of financial concepts: Child understands…
The money people pay to government
The money you get when you retire from working
The money that is added to savings by banks or building societies
The amount of money you have in your bank account

Knowledge of financial products: which products make your money grow, and which ones give you money now that has to be paid back later?
Government bond
Junior ISA
Payday loan
Investment

Can carry out transactions: When x-year-old pays for things in shops, does [he/she] usually…
Choose the right coins or notes to pay – parent question
Check [he/she] has the right change – parent question

Mindset Composites

Understands money's value: How well do you think your x-year-old understands the following about money?
Where your day-to-day money comes from
That adverts and some TV programmes are trying to sell them things
That you have to make choices when you spend your money
That money has a value

Financial confidence
Can child finish a task [he/she] has been asked/decided to do – parent question
Are they able to recognise the difference between something [he/she] wants (e.g. games) and something [he/she] needs (e.g. food) – parent question
Can child explain the choices [he/she] makes when [he/she] spends [his/her] money – parent question
How confident do you feel managing money

Attitude to financial situation (Agree/disagree)
Thinking about my money makes me anxious
Nothing I do will make much difference to my money situation
Below are some things people your age have said about borrowing money. Which one best describes how you feel about borrowing money?

Savings mindset
Imagine someone gives you £100. How much would you spend and how much would you save for later?
Imagine someone gives you £10. How much would you spend and how much would you save for later?

Shopping around: When you want to buy something for yourself, how often...
do you look in different places or stores to compare prices?
do you think about whether the item is good value for money?

Goal setting – Child has...
employment goals
financial goals

Connection composites

Engagement with bank account
Which of the following do you do with your bank account(s)? (excludes – digital engagement variables)
Do you know what type of bank account you have (if any)?
To what extent was your x-year-old involved in the choice of banking products in [his/her] name? – parent question

Experience with phone payments
To what extent was your x-year-old involved in the process of choosing the cost of [his/her] call and data package? – parent question
Is your x-year-old responsible for paying for [his/her] phone bill? – parent question
Do you get to have a choice in? The cost of your mobile phone call and data package

Child responsible for financial decisions
When you have money, who usually decides what you spend it on?
When you have money, who usually decides whether you save any of it?

Digital engagement
Which of the following do you do with your bank account(s)? Look at the account on my phone (mobile banking)
Which of the following do you do with your bank account(s)? Look at the account online (internet banking)

Discussing money with others
If you needed advice about money, who would you ask?
Do you talk about your money with any of the following people?

Involvement with household spending
Do you get to have a choice in? Family days out or holidays
Do you get to have a choice in? What to buy in the family food shop

3.4.2 Behaviour composites[12]

Active saving
Is your x-year-old able to do any of the following? Save up for a short period of time to buy something [he/she] wants – parent question
What is the longest time you have saved up for? (for example to buy something you wanted)
When you get money, how often do you save at least some of it?
How often do you put money aside into your savings?
How often does your x-year-old save up [his/her] own money to buy a specific item? – parent question

Day-to-day money management
How often do you plan how you are going to pay for things you need?
Do you know how much money you have in total?
How do you keep track of the money you get and the money you spend?

[12] A third behaviour measure related to online transacting also emerged. As the survey was not designed to explore online behaviour in depth it has been removed from the main body of the report. Interested readers can find regression results based on the variables available in the technical report.

4 Key drivers of children's behaviour with money

Once constructed these composites provide useful measures of children's financial Behaviour and their Enablers and Inhibitors (their financial Mindset, Connection and Ability). These help us to explore the key drivers of children's behaviours with money.

Specifically, the analysis below examines:

1. Which children's Enablers and Inhibitors or other factors are driving children's financial Behaviours (if at all)?
2. What role (if any) do these other factors play in predicting children's financial Behaviours?
3. Are results consistent across age groups?

4.1 Which children's Enablers and Inhibitors or other factors are driving children's day-to-day money management and active saving?

KEY FINDINGS:

- Out of Enablers and Inhibitors, it is particularly children's Mindset and Connection that are associated with more financially capable Behaviour and have direct links even once other factors are accounted for.
- The key factors that emerge from within Mindset and Connection are:
  - children's responsibility for financial decisions;
  - children's savings mindset;
  - whether children shop around; and
  - children's engagement with bank accounts.
- A small number of other factors (outside of the Enablers and Inhibitors) also have direct links with children's financial behaviour:
  - Children getting money regularly and having received any money in the previous week also have strong direct links with more financially capable Behaviours.
    - This link is similar regardless of the amount of money a child received, suggesting it is access to any money regularly (such as pocket money) that is important.
  - A small number of parenting factors are significantly associated with more financially capable Behaviours, including how often a parent saves, whether they set rules about money and what age they feel children should be given experience with money.
    - These are more associated with active saving than day-to-day money management.

This section uses regression analysis to explore key drivers of CYP financial Behaviours; their day-to-day money management and active saving. We explore the role played by financial **Enablers and Inhibitors (Mindset, Connection and Behaviour)** and other factors which include:

- **Children's demographics and information about the characteristics of their household** - this includes questions about their household's financial situation (eg income, housing tenure) as well as other demographic variables such as gender, ethnicity and household composition.
- **Children's financial means** – how much money they received in the last week (from any source) and whether they get money regularly.[13]
- **Child social-emotional/cognitive/behavioural skills (Child skills)** – questions on children's school performance, their behaviour and questions on self-esteem and other non-cognitive factors.
- **Parental influence** – questions on parents' own financial capability as well as their attitudes and behaviours towards their children and their finances.

[13] Regular money includes pocket money or money from a job. Everything else is classified as irregular money.

What does regression analysis tell us

Regression analysis allows us to test if a factor remains associated with a Behaviour once other characteristics of the child and their parents are considered. For example, it allows us to test whether higher levels of connection amongst children are linked to more financially capable Behaviour, or whether this higher level of connection is simply explained by them being from a high-income household.

For a given factor (Factor A) there are two relevant scenarios in this analysis:

1. Factor A remains significant after all variables are accounted for. This suggests there is a direct link with the Behaviour of interest and so is an effective vehicle for improving children's behaviour with money.
2. Factor A initially has a significant association with Behaviour but this becomes non-significant when other variables are accounted for. This suggests the initial link to children's Behaviour is explained by this factor's association with the variables that have been added. This is evidence for an indirect link with Behaviour, whereby the association of factor A with Behaviour is channelled through those variables added into the model.

For example, assume there were initially an association between parents talking to their children about money and day-to-day money management. If this association disappears when children's mindset characteristics are added to the analysis, this suggests parents talking to children about money is linked to behaviour through improving their mindset.

4.1.1 Drivers of day-to-day money management Behaviour

Table 1 presents the factors that are significantly associated[14] with a child's day-to-day money management once all variables are taken into account (the full list of variables included is presented in the technical report). This demonstrates:

- Higher scores on children's Mindset and Connection measures are associated with more financially capable Behaviour amongst children even once other factors are taken into account.
- Particularly key driving factors are:
  - how responsible a child is for making financial decisions;
  - whether a child shops around;
  - a child's saving mindset; and
  - discussing money with others.
- Similarly, children getting money regularly and having access to any money of their own are also directly linked with more financially capable Behaviour. Interestingly, it is not that getting more money is associated with increasingly capable Behaviour, simply that children have received any money in the last week that is associated with more financially capable Behaviour.
- Apart from parents setting rules about money, few other factors remain significantly associated with better day-to-day money management Behaviour.

[14] Note all factors shown are those that are significant at a 99% confidence level. This threshold is higher than the often used 95% confidence level, primarily to account for the large number of variables in the model as well as the complex nature of the sampling design. Ranges of effect sizes are presented where a factor has multiple categories – individual categories can be found in the technical report

Table 1: Significant predictors of children's day-to-day money management

SIGNIFICANT FACTORS	EFFECT SIZE	SMALL/MEDIUM/LARGE EFFECT	QUESTION CATEGORY
Child received any money last week	0.23–0.33	Medium	Child financial means
Child responsible for financial decisions	0.16	Medium	Composites – Connection
Shopping around	0.15	Medium	Composites – Mindset
Child receives regular money	0.13	Medium	Child financial means
Savings mindset	0.12	Medium	Composites –Mindset
Discussing money with others	0.1	Medium	Composites – Connection
Understands money's value	0.08	Small	Composites – Mindset
Engagement with bank account	0.08	Small	Composites – Connection
Parent sets rules about money	0.06	Small	Parental influence
Digital engagement	0.06	Small	Composites – Connection

4.1.2 Drivers of active saving Behaviour

There is a similar pattern of results when we analyse drivers of children's active saving Behaviour.

- Again, Enablers and Inhibitors (especially Mindset and Connection measures) are significant predictors of children's active saving.
- Key predictors are:
  - children's savings mindset;
  - how responsible they are for financial decisions;
  - their engagement with bank accounts;
  - whether a child shops around;
  - understands money's value; and
  - discussing money with others.
- Children receiving any money in the last week, and those receiving money regularly, also perform significantly better than those not.

There are some differences however:

- More parenting variables are significant predictors of children's active saving, including how often the parent themselves saves, and parents believing that children should be given experience with money earlier.
- One ability measure is significant (the ability to carry out offline transactions), though its effect is small.

Table 2: Significant predictors of children's active saving

SIGNIFICANT FACTORS	EFFECT SIZE	SMALL/MEDIUM/LARGE EFFECT	QUESTION CATEGORY
Child received any money last week	0.18–0.21	Medium	Child financial means
Savings mindset	0.20	Medium	Composites - Mindset
Child receives regular money	0.14	Medium	Child financial means
Child responsible for financial decisions	0.13	Medium	Composites - Connection
Engagement with bank account	0.11	Medium	Composites - Connection
Shopping around	0.11	Medium	Composites - Mindset
Children should be given experience with money earlier	0.05–0.10	Medium	Parental influence
Understands money's value	0.11	Medium	Composites - Mindset
Discussing money with others	0.10	Medium	Composites - Connection
Financial confidence	0.08	Small	Composites - Mindset
How often parent saves: Every/most months	0.05	Small	Parental influence
Parent sets rules about money	0.04	Small	Parental influence
Able to carry out basic transactions	0.04	Small	Composites - Ability

4.1.3 Overall drivers of financial Behaviour

This suggests children's financial Mindset, Connection and their financial means are key drivers of both their day-to-day money management and their active saving. This also suggests comparatively small direct relationships between other factors and their Behaviours.

Both of these models explain over 40% of the variation in children's financial Behaviour (which is a considerable proportion when compared to other studies and suggests this model is relatively successful), further demonstrating the usefulness of these factors.

Ability variables do not for the most part emerge as significant predictors. This suggests a comparatively small direct effect from these variables. Examining in more detail suggests:

- Financial numeracy specifically is associated with more capable financial Behaviours before any other variables are taken into account. This becomes non-significant when demographics are accounted for, suggesting this association is explained by more financially numerate children being found in better-off households.

While there is little association here it may be that the Ability questions asked are more relevant to future adult behaviour. For example, children are for the most part unable to access credit, therefore an understanding of interest rates may not currently be a useful determinant of behaviour but may become more relevant in adulthood once credit is available.

4.2 What role (if any) do other factors play in predicting children's financial Behaviours?

KEY FINDINGS

- There are indirect links between children's social-emotional/cognitive/behavioural skills and their financial Behaviours that are channelled through children's Enablers and Inhibitors (particularly Mindset and Connection).
- The same is true for other parenting factors, such as how often a parent shows their child how to check a bank balance. This suggests that these aspects are connected to a child's financial Behaviour but indirectly, through their Connection and Mindset.
- Ability variables play a relatively minor role though this may be because they are more relevant to adult behaviour.
- Demographics play a minor role with no direct links with financial Behaviour emerging, and very few indirect links. However, demographic factors may still be useful to inform targeting as links do exist before the other factors are taken into account.

While the Enablers and Inhibitors and a child's financial means are the key drivers of a child's financial Behaviour it is important to understand which other factors influence these and explore how they do so.

It may be that these other factors are driving children's Enablers and Inhibitors and so have an indirect link to financial Behaviour through these. This is investigated below for each of:

- children's social-emotional/cognitive/behavioural skills;
- parental influence; and
- demographics.

Note the tables below are ordered by the strength of their relationship with the relevant financial Behaviour.

4.2.1 Children's social-emotional/cognitive/behavioural skills

Before children's Enablers and Inhibitors are taken into account, children's maths ability, their perseverance, and their irritability are significantly associated with both their active saving and their day-to-day money management.

However, all of these become non-significant when children's Enablers and Inhibitors are taken into account. This is particularly true when measures of children's Mindset are added to the model. This suggests that children's social-emotional/cognitive/behavioural skills are indirectly linked to children's financial Behaviour through improvements mainly in their mindset towards money.

Table 3: Children's social-emotional/cognitive/behavioural skills predictors of children's active saving and day-to-day money management

SIGNIFICANT SKILLS FACTORS WITH ALL VARIABLES EXCEPT COMPOSITE MEASURES INCLUDED IN THE MODEL	REMAINS SIGNIFICANT WITH COMPOSITES INCLUDED?	CHANNELLED BY
Maths ability above age expectation at last report	No	Mindset
Child carries on with a task whether it is difficult or not	No	Mindset
Child is irritable or quick to get angry: Very/Mostly true	No	Mindset

These results suggest that children's social-emotional, cognitive and behavioural skills are all important in predicting children's Behaviour with money and they do so through their connections with children's money mindsets.

While the three aspects included in the table above are the key drivers that emerge from this analysis it is likely that these are also highly associated with other social-emotional, cognitive and behavioural factors and demonstrate the importance of these skills as a whole. These should be interpreted as the skills that best identify the link with financial capability, rather than the specific skills that need to be targeted.

4.2.2 Parental influence

As shown in the previous section there are several direct links between parental influence and children's financial Behaviour. However, in a similar manner to children's skills, there are also a number of indirect links that are channelled through children's Enablers and Inhibitors. These links are significant predictors of children's financial Behaviour until children's Mindset, Ability and Connection are taken into account.

There are a small number of indirect links between parental influence and children's day-to-day money management:

Table 4: Parental influence predictors of children's day-to-day money management

SIGNIFICANT PARENTING FACTORS WITH ALL VARIABLES EXCEPT COMPOSITE MEASURES INCLUDED IN THE MODEL	REMAINS SIGNIFICANT WITH COMPOSITES INCLUDED?	CHANNELLED BY
Parent sets rules about money	Yes	Direct link
Children should be given experience with money earlier	No	Combination of mindset, connection and ability variables
Parent shows child how to check balance: Sometimes/Often	No	Connection
Number of savings products used by parent	No	Connection

Results for active saving are similar, except that there are more direct links between parental influence and children's saving Behaviour. This suggests parents have more direct influence on children's saving than their day-to-day money management.

Table 5: Parental influence predictors of children's active saving

SIGNIFICANT PARENTING FACTORS WITH ALL VARIABLES EXCEPT COMPOSITE MEASURES INCLUDED IN THE MODEL	REMAINS SIGNIFICANT WITH COMPOSITES INCLUDED?	CHANNELLED BY
Children should be given experience with money earlier	Yes	Direct link
Parent sets rules about money	Yes	Direct link
Parent shows child how to check balance: Sometimes/Often	No	Connection
How often parent saves: Every/most months	Yes	Direct link
Parent talks to child about the fact advertising happens online: Sometimes/Often	No	Mindset

These results suggest that both a parent's own financial capability and how a parent interacts with their children with regards to money are important in predicting children's Behaviour with money.

While these are the key parenting drivers that emerge from this analysis it is likely that these are also highly associated with other parenting factors and demonstrate the importance of parental influence as a whole. These should be interpreted as the parenting characteristics that best identify parents having a positive influence on their children's financial Behaviour, rather than the specific behaviours parents need demonstrate.

4.2.3 Child and household demographics

Both child and household demographics appear to have few direct or indirect links to either active saving or day-to-day money management. The exception to this is that children with a disabled parent demonstrate significantly more financially capable Behaviours until their Enablers and Inhibitors are taken into account. However, this effect is small in comparison to other variables included.

These demographics can however be useful for targeting interventions as they are groups that are much easier to identify than for example children whose parents do not set rules about money. This analysis suggests the most effective demographic predictors of poor financial capability are likely to be:

- children having parents with low qualifications; and
- children having a disability.

These are significant predictors of poorer day-to-day money management and active saving when all child and household demographics are taken into account. However, these become non-significant when children's social-emotional/cognitive/behavioural skills and parental influence are accounted for. This suggests these links are explained by lower skills levels among disabled children and households with low parental qualifications.

Interestingly, household income plays a comparatively minor role in determining children's financial Behaviour. There is no difference with regard to active saving and only those on high (£50k and above) household incomes demonstrate significantly better day-to-day money management when other demographics are taken into account. Even this difference becomes non-significant when children's skills and parental influence are controlled for.

Examining this further suggests that on its own (ie without any controls), higher income is predictive of more capable financial Behaviours amongst children. However, income is also highly linked to parents' qualifications and the results above suggest that qualification may be a more efficient targeting mechanism than income.

A small number of regional differences are also apparent before other factors are incorporated. However, these differences are small and explained largely by variations in parenting and children's skills.

4.3 Are the findings the same for older and younger children?

KEY FINDINGS

- Overall, Mindset, Connection and children's financial means are the key drivers among both older and younger children. However, a wider range of Mindset and Connection variables are significant predictors amongst older children.
- Parents' financial behaviour seems to have a larger influence on older children, whereas their attitudes are more influential on younger children.

4.3.1 Day-to-day money management

Comparing the results for 7- to 11-year-olds and 12-year-olds and older suggests that for both, the child's financial means and their Connection and Mindset are key drivers of their day-to-day money management.

There are some small differences however:

- A greater range of Mindset and Connection variables are significant among those aged 12 and over.

Table 6: Differences in significant composite predictors of day-to-day money management amongst older and younger children

SIGNIFICANT FACTORS	7–11	12+	QUESTION CATEGORY
Child responsible for financial decisions	■	■	Composites – Connection
Discussing money with others	■	■	Composites – Connection
Engagement with bank account		■	Composites – Connection
Digital engagement		■	Composites – Connection
Savings mindset	■	■	Composites – Mindset
Goal setting[15]	■		Composites – Mindset
Shopping around		■	Composites – Mindset
Understands money's value		■	Composites – Mindset

■ Medium effect

■ Small effect

- Parents' own behaviour with regards to money seem to be more important for those aged 12 and above. Both their savings product use and whether they set rules about money are significant for this older age group though are not for 7- to 11-year-olds.
- However, parents' attitudes towards their children and money are more influential amongst younger children.

[15] This finding may need of further validation as the key driving variables were only asked of 11-year-olds and older.

Table 7: Differences in other predictors of day-to-day money management amongst older and younger children

SIGNIFICANT FACTORS	7–11	12+	QUESTION CATEGORY
Child received any money last week	■	■	Child financial means
Child receives regular money	■	■	Child financial means
Child is from BME family*	■		Household demographics
Child believes when nice things happen it is only good luck*	■		Child social-emotional/cognitive/ behavioural skills
Parent believes children grow up to be like their parents with money	■		Parental influence
Parent sets rules about money		■	Parental influence
Number of savings products used by parent		■	Parental influence

■ Medium effect *finding in need of further validation (see 'Over-fitting' explanation below)

■ Small effect

Over-fitting

The large number of terms of interest in this model (~100) means that dividing the sample into smaller age-bands increases the likelihood of 'over-fitting'. This refers to when there are too many variables relative to the sample size, leading to results that are unexpected or difficult to explain. Often these are variables that emerge as significant only after many variables have been controlled for. To attempt to maximise sample sizes the results below compare 7- to 11-year-olds and those over 12 rather than smaller age-bands. Any results that remain potential candidates for over-fitting are highlighted with an asterisk (*) and need validation on further samples.

4.3.2 Active saving

There are similar findings for active saving Behaviour, with Connection, Mindset and child's financial means significant predictors across both age-groups.

- Again there are a greater range of Mindset and Connection variables that are significant predictors amongst the 12-year-olds and above.

Table 8 – Differences in significant composite predictors of active saving amongst older and younger children

SIGNIFICANT FACTORS	7–11	12+	QUESTION CATEGORY
Child responsible for financial decisions	■	■	Composites – Connection
Discussing money with others	■	■	Composites – Connection
Engagement with bank account		■	Composites – Connection
Savings mindset	■	■	Composites – Mindset
Goal setting*	■		Composites – Mindset
Understands money's value		■	Composites – Mindset
Shopping around		■	Composites – Mindset
Financial confidence		■	Composites – Mindset

■ Medium effect *finding in need of further validation (see 'Over-fitting' explanation below)

■ Small effect

- Parents' own behaviour with regards to money again seems to be more important for the those aged 12 and over. Both their savings product use, their own bank account checking and whether they set rules about money are significant for this older age group though are not for 7- to 11-year-olds.
- An interesting exception is the parents' self-reported saving frequency, which is a significant predictor for 7- to 11-year-olds but not older children. This suggests that among younger children it is simply the impact of parents' saving regularly that is important in influencing their child's saving Behaviour. However, among older children it seems to be the specific ways that the parent is saving, as opposed to the frequency, that is important.

Table 9: Differences in other predictors of active saving amongst older and younger children

SIGNIFICANT FACTORS	7–11	12+	QUESTION CATEGORY
Child believes when nice things happen it is only good luck*	■		Child social-emotional/cognitive/ behavioural skills
Child is shy*		■	Child social-emotional/cognitive/ behavioural skills
Child is male*		■	Child demographics
Child received any money last week	■	■	Child financial means
Child receives regular money	■	■	Child financial means
Child is from BME family*	■		Household demographics
Children should be given experience with money earlier	■	■	Parental influence
Parent saves every/most months	■		Parental influence
Parent believes children grow up to be like their parents with money	■		Parental influence
Number of savings products used by parent		■	Parental influence
Parent sets rules about money		■	Parental influence
Parents' offline bank account checking		■	Parental influence

■ Medium effect *finding in need of further validation (see 'Over-fitting' explanation below)

■ Small effect

5 Next Steps

This analysis allows us to understand the different aspects of children and young people's financial capability and how these interact together to influence a child's financial behaviour. It also helps us understand the role played by other factors, such as parental influence, the child and household's demographics, the child's own skills, and a child's own financial means.

The findings from this analysis will be essential inputs to a detailed Needs Analysis of the financial capability needs of children and young people, to be published alongside this report. This Needs Analysis will draw together findings from this report, 'deep dives' into the CYP FinCap Survey data on vulnerability and parenting, and wider research such as the analysis of the 1970 British Cohort Study, to set out all we know to date about children and young people's financial capability needs, which groups may have additional needs, and the nature of these needs. It will also summarise the gaps in insight and understanding from research at present.

This Needs Analysis will feed into a Gap Analysis comparing current need to financial education provision and evidence about what is likely to be most effective in meeting needs. This will inform the Money Advice Service's future children and young people Commissioning Plan, laying out how we believe resource can best be targeted to improve children and young people's financial capability, to be published in autumn 2018.

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