

Financial Health

The Resolution Foundation is an independent research and policy organisation set up in 2005. Our goal is to improve the well-being of low earners in today's mixed economy. We aim to deliver change in areas where this income group is currently disadvantaged by producing new research and engaging actively in the policy-making process.

How individuals secure and maintain their financial health is particularly important in the current economic context. A range of government, private and voluntary sector initiatives exist to help people manage their money and access key financial services. Developments in the financial services industry also have a profound effect on people's financial health.

The Resolution Foundation has undertaken research into how low earners access financial services, focusing in particular on how to meet their financial advice needs. We produced a proposal for a national generic financial advice service, which fed into the Thoresen Review set up by HM Treasury. The Review published its final report in March 2008 recommending a national Money Guidance service. The government endorsed its findings and in early 2009, pathfinders will go live in the North East and North West of England. Money Guidance is being led by the Financial Services Authority.

Low earners and financial health

Analysis undertaken by McKinsey examined the financial health of low earners, categorising people by whether they have acute, chronic or mild symptoms of financial stress.

Nearly a quarter of low earners display chronic signs of financial stress. Low earners in this situation have little or no savings to help them cope if they experience an unexpected drop in their income, high-levels of debts and are at risk of financial crisis. A further ten per cent are facing acute financial difficulties and may have already reached crisis point.¹

- **Low savings** - Nearly one-third of low earners reported having no savings in 2006-07, while a further one-quarter had savings of less than £1,500.
- **Living for the here and now** – 63 per cent of low earners owe money on secured or unsecured loans; low earners are also unlikely to have life insurance or pensions.
- **Housing-asset rich but income poor** - 58 per cent of the target group own their own home, but they are also more likely to have experienced difficulties in meeting their housing payment.

The Financial Health Forum

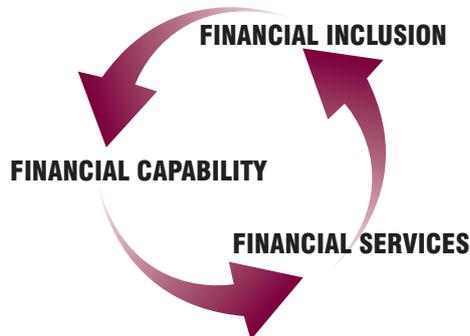
The Foundation has recently established the Financial Health Forum. The Forum is an independent body of experts which aims to progress thinking and practice on issues relating to the population's financial health. The aims of the Forum are to:

- Provide a strategic overview across financial inclusion and financial capability
- Identify gaps and overlaps that can contribute to improved delivery of financial health
- Make links with developments in the financial services industry
- Consider consumer awareness of financial health related issues

¹ Based on the FSA Baseline survey

Financial Inclusion, Financial Capability and Financial Services

The terms ‘financial capability’ and ‘financial inclusion’ are key terms widely recognised by organisations helping people to secure their financial health.



Financial capability

The ability to make decisions about finances is an essential skill, and one that can help people to manage their day-to-day spending, deal with unforeseen emergencies and plan for their future. It is becoming even more important in the current economic climate and there are a number of organisations, initiatives and projects currently in operation to help people.

HM Treasury uses the following definition to explain financial capability

“...a broad concept, encompassing people’s knowledge and skills to understand their own financial circumstances, along with the motivation to take action. Financially capable consumers plan ahead, find and use information, know when to seek advice and can understand and act on this advice, leading to greater participation in the financial services market.”²

Financial inclusion

According to Transact, the National Forum for Financial Inclusion, financial inclusion refers to

“A state in which all people have access to appropriate, desired financial products and services in order to manage their money effectively. It is achieved by financial literacy and financial capability on the part of the consumer, and access on the part of financial product, services and advice suppliers.”³

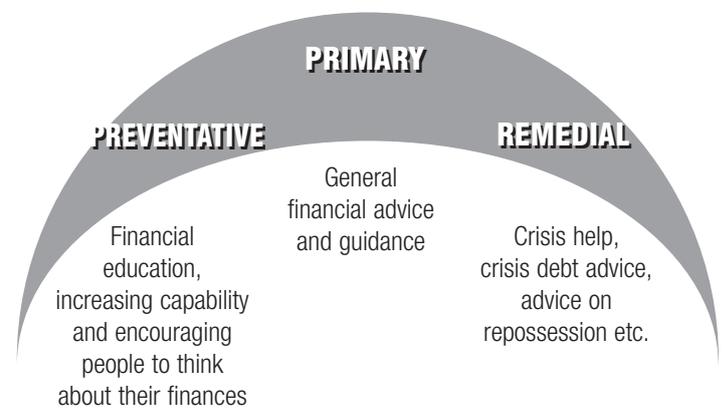
Financial inclusion and financial capability are linked with developments in the financial services sector and all three interact in order to achieve the best results for consumers.

For further information on financial inclusion and financial capability, please see the briefing sheets the Resolution Foundation produced in partnership with Transact.⁴

Activity to support financial health

The Resolution Foundation has found that applying a health care model to the concept of financial health can provide a helpful strategic overview of the range of activity that currently exists. Broadly speaking, different initiatives and programmes can be divided into three main areas:

- Preventative: Programmes providing education and guidance to individuals to help them understand and manage their finances. The ‘5 fruit & veg’ of the financial world.
- Primary: The ‘GP’ of the financial world; advice and guidance available to individuals when they have a query or an issue they need help on
- Remedial: The ‘A & E’ of the financial world; a place to go when personal finances reach crisis point



Contact

The Financial Health Forum meets three times a year and discusses and monitors progress on key initiatives. For further information please contact the forum’s coordinator, Helen Aynsley at Helen.aynsley@resolutionfoundation.org. The Foundation’s website also has a dedicated section where all minutes, papers and presentations are posted.

www.resolutionfoundation.org

² Financial capability: the Government’s long term approach, HM Treasury, 2007

³ www.Transact.org.uk

⁴ Available at www.resolutionfoundation.org/publications_briefings_php