Emotional relationships with money and financial behaviour: Analysing the Big Money Test

In 2011 over 100,000 people took part in the BBC LabUK's Big Money Test, a survey launched on the consumer affairs programme *Watchdog*. The survey, designed by Adrian Furnham of University College London and Mark Fenton-O'Creevy of the Open University, aimed to find out more about people's emotions and attitudes towards money, and whether this had an impact on their financial management, or whether financial knowledge and education are the primary keys to successful money management.

Key findings

People who spent more money impulsively generally had worse financial outcomes. They were significantly less able to make ends meet, and those with the highest levels of buying impulsiveness were three times more likely to experience bankruptcy than those with the lowest levels.

Impulse buying was found to decrease with age, and was more common among women than men. It was more common among people who have difficulties in managing their emotions effectively. People with higher levels of education and financial knowledge were less likely to impulse buy.

The study found that the probability of experiencing a range of adverse outcomes declined with increasing income and with level of education. The only exception to this was the likelihood of having an unplanned overdraft.

Financial capability had a significant impact on whether people experienced adverse financial outcomes, but financial attitudes had significant independent impact, over and above the effect of their financial capability or knowledge.

People who associated money with power seemed more likely to have adverse financial outcomes and those who associated money with security tended to have better financial outcomes.

Key conclusions

There were clear links between attitudes to money, the management of emotions, and people's success in managing their money. Attitudes to money were found to affect people's likelihood of experiencing adverse financial outcomes, regardless of their level of financial capability and financial knowledge.

Policy interventions aimed at financial education and reducing financial difficulties should pay greater attention to the role of attitudes and emotions in how people manage money.

What's inside

Policy context

In recent years, substantial amounts of public money and policy development have been devoted to providing people with the knowledge they need to manage their personal financial affairs, and regulatory regimes require providers of financial services to ensure their customers have adequate financial knowledge. However, for the most part, these kinds of knowledge-based strategies have had limited success in improving how capable people are at managing their money. There is concern that knowledge-focused approaches to financial behaviour miss a very important part of the picture – our emotional and attitudinal relationship to money. It may not be a lack of financial knowledge that makes the difference in navigating financial difficulties – our decisions, for better or worse, might be based on our habits, attitudes, beliefs and emotions about money.

About the study

This study was designed to develop ways of characterising people's psychological and emotional relationships with money and examine how these affect their financial health. It is based on a survey carried out by the BBC, with support for the analysis from Friends Provident Foundation.

In spring 2011 the BBC's LabUK launched an online nationwide survey of people's emotional and psychological relationships with money – the Big Money Test – on the flagship consumer affairs programme *Watchdog*. More than 109,000 people completed the survey. This summary reviews the main findings of an analysis of the data.

Impulsive buying behaviour

Impulsive buying is a consumer's tendency to buy spontaneously, unreflectively and immediately. Researchers have disagreed about whether this is harmful or a social good. Some have seen it as a positive or harmless trait, an enjoyable and time-saving approach to shopping, and retailers often work to increase impulsive purchases. However, it has also been associated with debt problems, including credit card debt, and seen as a form of behaviour used to manage emotions.

Data from the Big Money Test enabled the researchers to assess the relationship between impulsive buying and people's ability to make ends meet and deal with adverse financial events, ranging from unplanned overdrafts and denial of credit through to bankruptcy.

Who was more likely to buy impulsively?

The study found that, on average, impulsive buyers had higher income but lower wealth than others, perhaps suggesting that impulsive buying is more likely for those who have money but that impulsive buyers are less likely to accumulate wealth.

People's social class also affected their levels of impulsive buying, perhaps reflecting different social norms about spending money. In particular, people who identified themselves as working class tended to impulse buy more than those who self-identified as middle-class. People with higher levels of education and financial knowledge were less likely to impulse buy, and impulsive buying decreased with age. Impulsive buying was found to be more common among women than men.

Overall, the greatest levels of impulsive buying were reported by people with greater sensitivity to positive and negative emotions, and with less effective strategies for managing their emotions.

How impulsive buying affected financial outcomes

The study looked at two measures of financial problems: ability to make ends meet; and experience of adverse financial events, such as repossession of goods, bankruptcy, etc.

It was found that higher levels of buying impulsiveness were associated with worse financial outcomes. For example, people who buy impulsively were significantly less able to make ends meet; and those with the highest levels of buying impulsiveness were three times more likely to experience bankruptcy than were those with the lowest levels.

Financial personality and financial outcomes

In order to understand why some people suffer poor financial outcomes and others do not, individual differences in financial capability and attitudes towards money must be considered, as well as the financial circumstances that people create and then operate within.

Financial capability

Financial capability is the ability to live on the resources available, and to make appropriate financial decisions. Based on work commissioned by the Financial Services Authority, four aspects of financial capability have been identified. They include 'making ends meet' (adequate management of available financial resources); 'keeping track' (monitoring one's personal financial status); 'planning ahead' (taking financial precautions for the immediate future); and 'staying informed' (being aware of current economic developments). To date, financial capability has received relatively little empirical investigation, although it is thought to be an important determinant of financial experiences and outcomes.

Attitudes to money

Attitudes are a person's feelings, opinions, and general approach towards a person or object. They are often influenced by situational and circumstantial factors, and are believed to be more open to being changed by external intervention than personality traits. Four key money attitudes have been identified in prior research. First, money may be perceived as a security blanket, leading to hoarding and saving behaviours. Second, money may represent power, status and control; here, money leads to social recognition and acceptance because it buys status symbols and enables control over others. Third, money can be associated with the expression of love or generosity, including the buying and selling of emotional closeness and affection. Finally, money may mean autonomy or freedom, enabling people to escape from the dull and humdrum aspects of their lives.

How financial capability and attitudes to money affected financial outcomes

No study, so far, has explored the joint relationship of financial capability and attitudes towards money, and how they affect people's financial outcomes. For this study, the researchers assessed the impact of financial capability and financial attitudes on the following financial events: bankruptcy; repossession of car; repossession of house; missed payment; denial of credit; and unplanned overdraft.

The probability of experiencing these adverse outcomes was found to decline with increasing income and with level of education. The only exception to this was the likelihood of having an unplanned overdraft.

In terms of financial capability, the study found that making ends meet was associated with lower probability of experiencing all adverse financial events. People who were classed as 'staying informed' of financial matters were also less likely to experience adverse financial events.

Those who kept track of their finances and planned ahead were actually found to be more likely to experience adverse financial events. One possible explanation for this is that their experience of adverse financial events had encouraged them to take greater care with keeping track of finances and planning ahead. (As this study was not longitudinal it is not possible to determine causal direction.)

Key factors in financial outcomes

The study found that people's financial attitudes explain differences in financial outcomes above and beyond the effect of financial capability. Those who associated money with power were more likely to experience adverse financial events. By contrast, those who associate money with security were less likely to experience these same adverse financial events.

The picture for the other two attitudes (money as an expression of love, money equalling autonomy) was more complex, with differences between men and women.

Overall, both financial capability and financial attitudes had a significant impact on whether people experienced adverse financial outcomes. A separate analysis of the data also showed that whilst financial knowledge and education play an important role in explaining financial outcomes, their explanatory power is lower than the effects of financial attitudes.

Key conclusions

Drawing on a large and unique data set, this study found clear links between attitudes and emotions, and people's success in managing their money.

Attitudes to money were found to affect people's likelihood of experiencing adverse financial outcomes, regardless of their level of financial capability and financial knowledge.

Policy implications

The findings of this study suggest that policy interventions aimed at financial education and reducing financial difficulties should pay greater attention to the role of attitudes and emotions in how people manage money. A particular implication is that financial education programmes need to pay attention not only to financial knowledge and financial capability but also to financial attitudes and effective approaches to managing the emotions associated with money and personal finance.

A 'social marketing' approach, which has been successful in the field of health behaviours, may have some relevance to the field of personal finance and financial education. This approach adapts commercial marketing technologies to programmes designed to influence voluntary behaviour.

Further information

This summary is available as a pdf from the Friends Provident Foundation website (www.friendsprovidentfoundation.org). The study was carried out by Mark Fenton-O'Creevy (Open University Business School), Adrian Furnham (University College London), Sophie von Stumm (University of Edinburgh) and Gareth Davies (Open University Business School). A full account and analyses can be found in the two academic papers written (to date) on the study:

S. von Stumm, M. Fenton-O'Creevy and A. Furnham (2013) 'Financial capability, money attitudes and socioeconomic status: Risks for experiencing adverse financial events', *Personality and Individual Differences*, 54(3): 344–9. Online at: http://oro.open.ac.uk/35597/

M. Fenton-O'Creevy, A. Furnham, S. Dibb and G. Davies (2012) 'Antecedents and consequences of impulsive buying: Can impulsive buying be understood as dysfunctional emotion regulation?' *Eighth International Conference on Emotions and Worklife: Emonet VIII*, 2–3 July 2012, Helsinki. Online at: http://oro.open.ac.uk/35606/

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