Danske Bank

Helping the next generation build good money habits

- Building the financial confidence of children and young people in the Nordic countries

Made for:
Danske Bank

By:
/KL.7 – A part of Implement Consulting Group

In cooperation with:
YouGov

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Foreword: Financial confidence for the next generation

At Danske Bank, we want the next generation of children and young people in the Nordic countries to get a good start in life. We know that practice makes perfect and that good money habits can help children progress all the way to a financially secure adulthood. Children today live in an ever-changing financial world. Digital money, contactless payments, in-app purchases and cryptocurrency are just some of the things they need to understand. Money has become 'invisible' and our spending digital. This leads to less friction and makes it harder to have self-control than when you are paying with cash in traditional shops. Therefore, we need new insights on how to develop good money habits in this digital age and new ways of talking about invisible money with our children.

From financial literacy to financial capability

Danske Bank has worked with financial literacy programmes on different levels for the last 12 years. More than one million children and young people participated in our programmes in 2018-2020. We have changed our approach over the years, and it now relies on the newest research on how children and young people develop good money habits. We have changed the way we design our learning platforms. Providing children and young people with basic financial understanding does not meet the needs of the next generation. Our programmes must not only train their abilities but also give them real-life money management experience and help them connect with money so they can develop a mindset for the future. Towards 2023, we aim to support two million children, young people and their parents with physical and digital tools. events and platforms to help increase the overall financial capability of the next generation in the Nordics.

Measuring *actual* impact

This report contains the baseline of financial capability of 3,690 children and young people and their parents from Denmark, Norway, Sweden and Finland. The baseline results come from an extensive survey based on our new financial capability compass built from a combination of behavioural science and developmental psychology. One of the primary insights we gained from taking this science-based approach to teaching children and young people about money is that only providing information about money and money habits is not enough to change financial behaviour. To be able to assess if our programmes change behaviour, we first need a baseline; a 'snapshot' that shows the current state of financial capability in the Nordic countries.

Financial capability in the Nordic countries

This report delivers insights and practical strategies on how to work with the financial capability of the next generation of children and young people. We will use them to develop and measure our impact programmes for years to come.
The four main insights are:

1. Practice makes perfect
Being told about money and financial decision-making is not the same as actually making financial decisions yourself.

2. Strong financial capability requires getting an early start
Children should be given their own money when they are around three to four years old. The earlier they begin, the more opportunities to practice. It is not a question about the amount of money but about frequency.

3. Understanding the role of money in society
Information and knowledge in itself are not enough to build financial capability but understanding the role of money in society is an indicator of strong financial capability.

4. Parental behaviour is essential
Parents are usually good at saying the right things, but young children in particular learn via observation and imitation – not by listening; what parents do is more important than what they say.

As a bank, we want to enable parents to raise their children and young people with a thorough understanding of – and experience with – sustainable financial behaviour. Moreover, it is about giving children and young people the opportunity to create a life that meets their dreams and aspirations. Teaching children about money and financialdecision-making at an early age will give them the best foundation to grow up to become independent adults. It will not only benefit them as individuals, but also their families, the organisations around them and our society as a whole. Helping children and young people build financial capability is about allowing them to practice from an early age. We need to regard financial capability in line with spelling, math and other competences we all know children must learn to master in their childhood. Parents should talk to their children about money at the dinner table, when they go out grocery shopping or play 'house' with their youngest, and it should be part of the curriculum at all school levels. As a bank, we will support this agenda with programmes, knowledge and tools. To succeed, however, one thing is certain: we need to cooperate with organisations and the educational sector to create the impact required to provide our children with the best chances of a financially secure future.

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CHAPTER 1.

Introduction: The challenge of 'invisible' money

In this section

- Financial stress can have negative impact on both financial outcomes and overall wellbeing
- Children primarily learn by trying things themselves and by detecting patterns in what other people do
- Simply providing information is ineffective for learning about money
- "Invisible" money can change the way we think about money and make financial decisions

Digitalisation and digital payment methods have made financial transactions much easier. But new technologies can also influence how people think about money and make financial decisions.

An analysis[1] of actual buying behaviour among 1,000 households over a period of six months revealed that shopping baskets paid for with credit or debit cards contained a larger proportion of food items rated as impulsive and unhealthy than those paid for with cash.

The 'pain of paying' is less now than when you had to take physical money, i.e., notes and/or coins, from your pocket or wallet and exchange them for products or services.

But the financial world in particular *is* getting increasingly digital and complex, so how do we give children and young people the best opportunities to learn how to navigate in a world where money is 'invisible'?

At what age should children begin receiving their own pocket money?

Which aspects of financial decision making should parents talk openly about at home?

More generally, how do we help children and young people build financial capability?

Our responsibility towards the 'invisible money' generation

As a major financial institution in the Nordic countries, we see it as part of our responsibility to help children and young people develop the skills they need to safely and confidently navigate today's complex and digital financial environment.

Societies, organisations, individuals and families all benefit from building financial capability, which is the foundation of overall financial confidence. That is why we want to put financial capability on the agenda.

In this report, we present our first steps towards helping children and young people build financial capability through a combination of behavioural science and developmental psychology.

Preventing financial stress

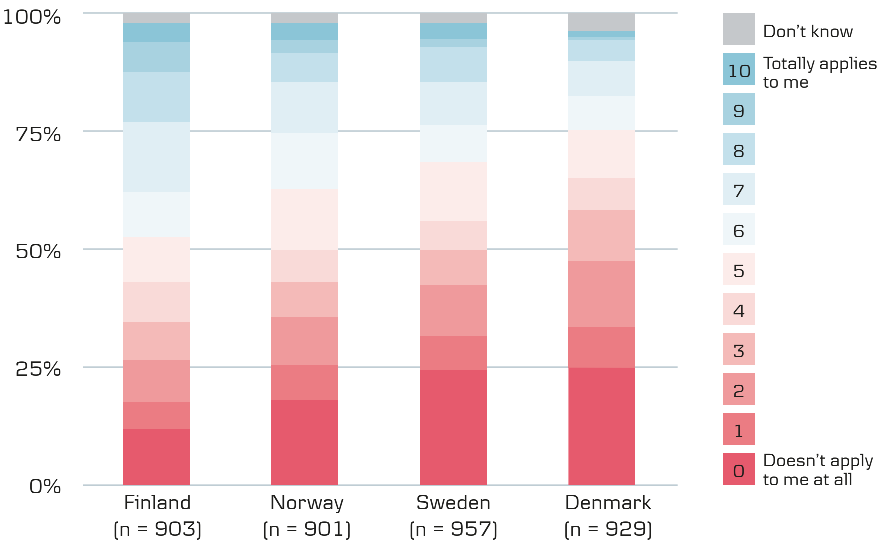
Good financial outcomes are important for our financial confidence. Worrying about whether or not you will be able to pay rent next month will undoubtedly make it difficult to focus on tasks at work or on nurturing your family relationships. Financial confidence can also influence other aspects of our general well-being. When people are struggling to repay their loans, they experience certain *financial stress*. This is seen to significantly affect their mental health[2].

A wealth of research documents a connection between early childhood development and outcomes later in life. The same goes for financial capabilities and confidence. New insights have shown that childhood skills and behaviour can predict adult *financial* outcomes, in some cases from as early as age five[3].

In the Nordic countries, at least 15% of parents feel that the statement "I feel pressure to spend money on my children even when I can't afford to" somewhat applies to them:

To what extent do the following statements apply to you? "I feel under pressure to spend money on my children even when I can't afford to" (N = 3,690)

Source: /KL.7 & YouGov 2020



At least

15%

parents feel pressure to spend money on their children even when they can't afford to

We see this as an indicator that parents in the Nordic countries might experience some degree of financial stress. Undoubtedly, having children is expensive, but as will become evident in the following sections, parents are not doing their children any favours in the long run if they spend money even when they cannot afford it.

Financial stress can be prevented by building financial capability.

But what *is* financial capability?

What we mean by financial capability

Our goal is to improve the financial capability and confidence of children across the Nordics. In order to know if we have improved the financial capability of children, we need to be able to measure it. And since you cannot measure what you cannot define, here is our definition of what financial capability means:

> *Financial capability is the ability to manage money well – on a day-to-day basis and through significant life events, rainy days and unforeseen challenges*

Let us paint a picture of a financially capable person using this definition[4].

Investigating a person's financial capability is about understanding the skills, knowledge, behaviours, attitudes, motivations and their connection to the financial system that produce the above characteristics.

In section 2, we will present how we mapped the financial capability of children, young people and parents in the Nordic countries.

How children and young people learn about money

Helping children and young people build financial capability begins with understanding the strategies they use when learning in general.

Children and young people learn about money and financial decision -making at a very early age (see table on the next page). But it is important to keep in mind that children are not 'little adults'.

The basic learning strategies that young children in particular use[5] are

- **Imitation** – learning through their *experiences* by doing what other people do; and
- **Induction** – detecting patterns in their *observations*

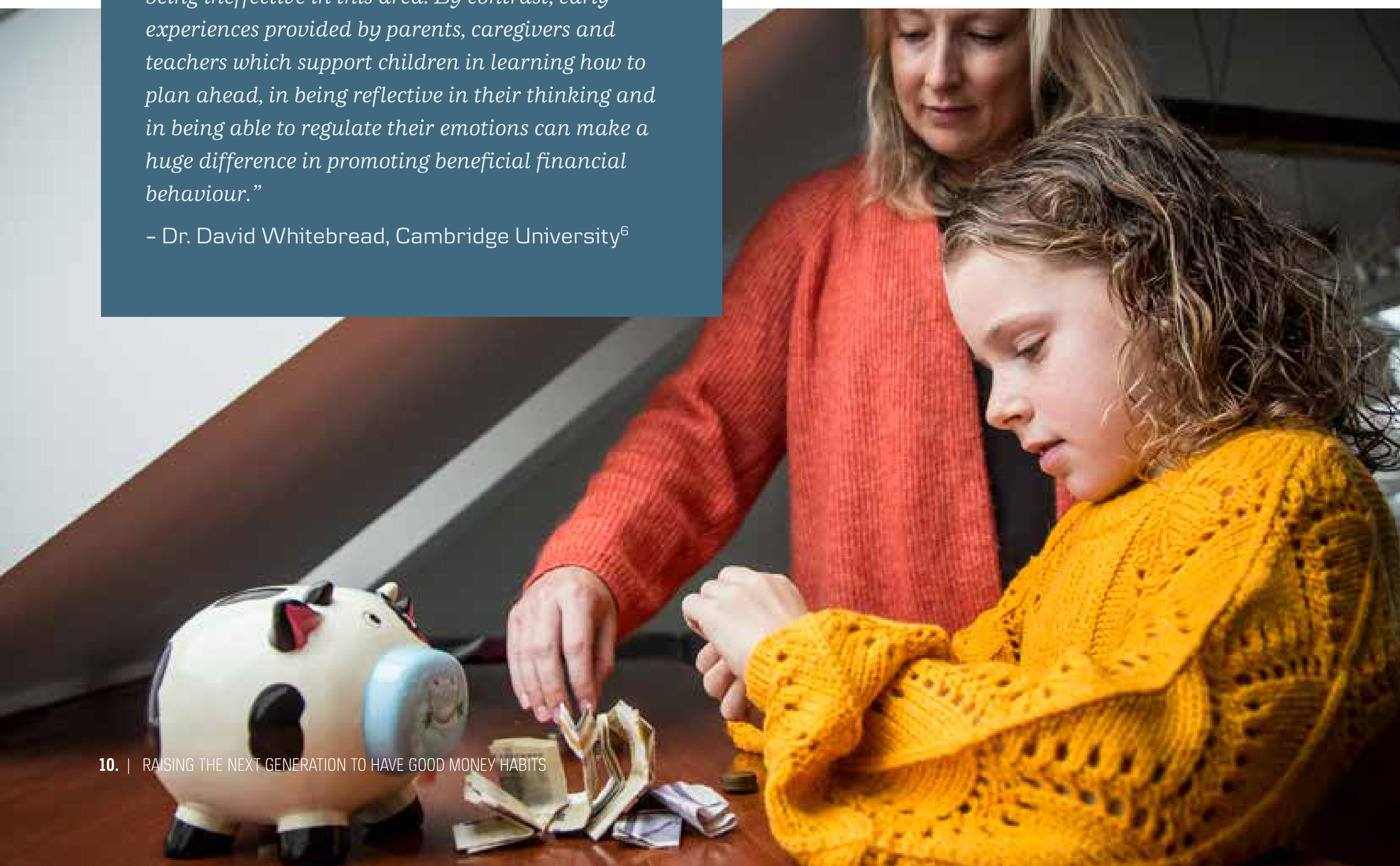
These strategies mean that simply telling children and young people what to do or providig them with information only is an inefficient path to competent financial decision-making.

Information is not enough

If human beings were completely rational, it would be enough to simply give them information, let them learn by themselves and then expect them to make good financial decisions.

However, this is far from the case, especially in the context of teaching children about money. In the words of a leading developmental cognitive psychologist and early-years specialist:

> *"Simply imparting information is now recognised as being ineffective in this area. By contrast, early experiences provided by parents, caregivers and teachers which support children in learning how to plan ahead, in being reflective in their thinking and in being able to regulate their emotions can make a huge difference in promoting beneficial financial behaviour."*
>
> – Dr. David Whitebread, Cambridge University[6]



In other words, knowing how to make a budget, plan for the future etc. does not necessarily mean that children and young people will *actually* do these things once they become young adults. They need opportunities to practice.

Aspects of financial decision making that children are able to learn	Age Group			
	3-4	5-6	7-8	9-11
How to differentiate between various counts (e.g., by numbers, colours, size, & shape)	●	●	●	●
That coins and notes have different values	●	●	●	●
That things cost different amounts, such as buying toys or riding the bus	●	●	●	●
That money can be used in different places and for different things	●	●	●	●
That money should be kept in a safe place	●	●	●	●
That money can only be used once	●	●	●	●
The exact value of coins and notes		●	●	●
The importance of waiting for, and checking the amount of, change from a purchase		●	●	●
That it is important to keep an eye on spending		●	●	●
That they might run out of money, if they do not keep an eye on what they are spent on		●	●	●
That they can choose between spending and saving		●	●	●
How to make a simple plan for spending money, e.g., a shopping list		●	●	●
How to check what money has been spent on, e.g., by looking at a receipt		●	●	●
That there is a difference between things you need and things you want		●	●	●
That there can be consequences if money is not kept safely or is stolen and how such situations feel		●	●	●
Where money comes from		●	●	●
How loans work			●	●
That there are both paid and unpaid jobs			●	●
Simple calculations based on exchange rates				●
That other countries might use other currencies that their own				●
How to make and follow a simple budget and keep an eye on spending				●
How to check basic financial information, e.g., receipts, bills, and account statements				●
How commercials are used to persuade people to spend money				●
How to compare prices and choose how to get the most value for money				●
That there are risks with spending money online, e.g., pyramid schemes and phishing attacks				●
What interests are and how they work				●
The benefits of saving and explain some of the risks with borrowing				●

CHAPTER 2.

Financial capability in the Nordic countries

In this section

- Financial capability consists of the three building blocks Connection, Mindset, and Ability
- We have made a survey with more than 3.500 children and young people from the Nordic countries to investigate their financial capability
- Key takeaways for building financial capability:
  - Practice makes perfect
  - Start early, ideally when children are 3-4 years old
  - Understanding the role of money in society
  - What parents *do* is more important than what they say
- Concrete tips for improving financial capability

Our goal is to improve the financial capability of children, young people and parents in the Nordic countries. Therefore, we needed a baseline; an understanding of the current state of financial capability.

The baseline was measured in a survey of 3,690 children and young people and their parents from Denmark, Norway, Sweden and Finland. The survey was based on our new financial capability compass:

Our financial capability compass, inspired by the Money and Pensions Service in UK and Cambridge University

The model is developed through insights from developmental psychology and shows the three main building blocks of financial capability (Connection, Mindset and Ability). At the bottom you see the four primary sources of influence on the three main components: educational experiences, social influence, parenting influence, and support networks.

The survey we used to measure financial capability consisted of questions related specifically to each of the three building blocks (see appendix **Financial capability calculation** for details):

Connection + Mindset + Ability = Financial Capability

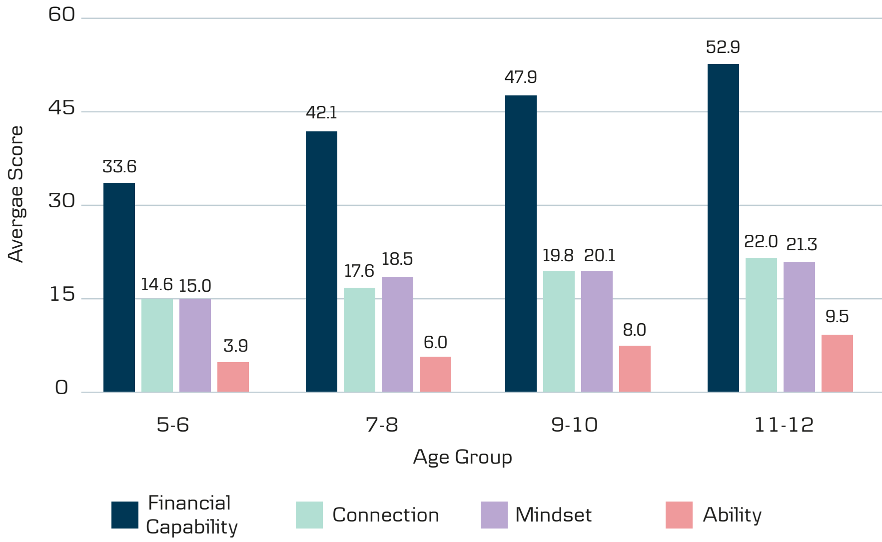
Below you see the financial capability scores of children and young people across age groups in Denmark, Sweden, Norway and Finland:

As expected, financial capability increases with age. We see an increase with age across all three building blocks, but especially Ability improves relatively. A 12-year-old simply has a better understanding of money than a five-year-old. Mindset improves the least with age as Connection is the category that improves the most nominally. A 12-year-old will have been much more exposed to money and have had more chances to practice its management.

Connection and Mindset influence financial capability more than Ability does. Therefore, we have calculated our financial capability score so that Connection and Mindset have greater impact on the final score than Ability[7].

Financial capability scores across age groups (N = 3,690)

Source: /KL.7 & YouGov 2020



Like learning how to ride a bike

A useful analogy for understanding our approach to building financial capability is to imagine a five-year-old about to learn how to ride a bike. You would never hand the child books on how bicycles work. Books about tyre pressure, the physics of motion and energy transfer. And you would not expect a young person to be able to ride a bike with confidence in traffic after having spent their childhood reading – and completing tests – *about* bikes.

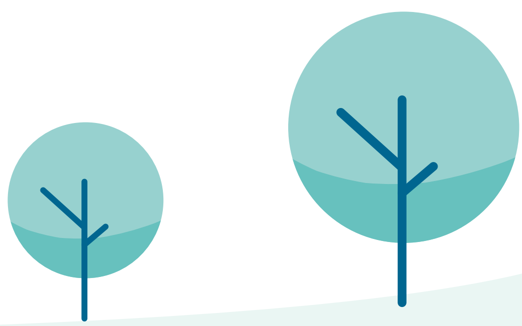
On the contrary, you would begin with an *actual* bike that the child can touch and feel (Connection). You would encourage the child by being supportive and only removing the support wheels when the child feels confident (Mindset). The child's knowledge (Ability) comes later, when he or she is old enough to ride in traffic and has to learn the traffic rules.

Importantly, learning how to ride a bike requires that you sometimes fall and scratch your knee – in a safe environment.

The same reasoning goes for learning about money. Children need to experience what it feels like to spend money on something and see the money change hands, and they have to learn to delay gratification, save money and over time be able to spend money again.

Financial education makes greater demands on parents to make it as fun as learning how to ride a bike, so a key task for both parents and institutions is to find ways to engage children and young people.

In the following four sections, we will unpack the financial capability scores and provide inspiration on how to improve financial capability.



Practice makes perfect

Confidence in any skill comes from deliberate and continuous practice. Experience is necessary whether you are learning how to ride a bike or how money works. In the words of a leading developmental cognitive psychologist and early-years specialist writing about giving children the best opportunities to learn about money:

> *"A key point here is that situations need to be constructed so that the child experiences the process or idea rather than just being told about it."*
>
> \- David Whitebread[8]

The more experience you have in dealing with money and making your own decisions, the higher your financial capability. In other words: practice makes perfect.

To practice financial decision-making, you need to have your own money. Across all age groups, children and young people in the Nordic countries get their own money from a range of different sources and on various occasions:

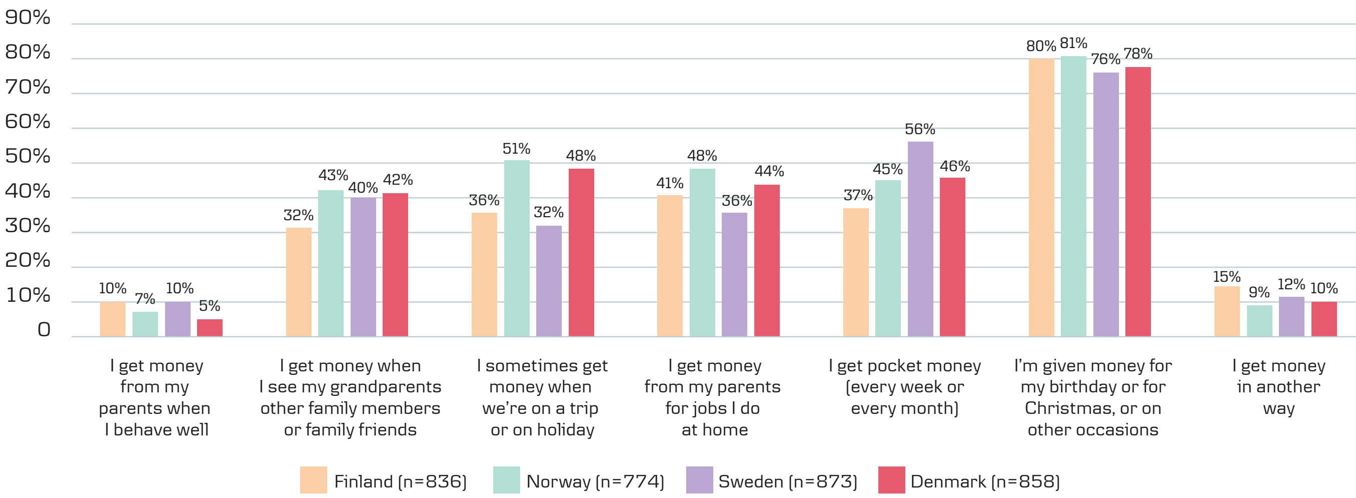
Around 75-80% of children and young people in the Nordic countries receive money for their birthday, for Christmas or on other occasions. This is also the way of receiving one's own money where children and young people are treated almost equally across the Nordic countries.

More Norwegian and Danish children and young people get money for trips or when on holiday (51% and 48%) than Finnish and Swedish children and young people (36%, and 32%).

Importantly, more children and young people in Sweden get pocket money (every week or every month) (56%) compared to the other Nordic countries and that is essential when looking at the influence of regular pocket money on financial capability.

"Where do you get your money from?" You can give more than one answer (N = 3,341)

Source: /KL.7 & YouGov 2020

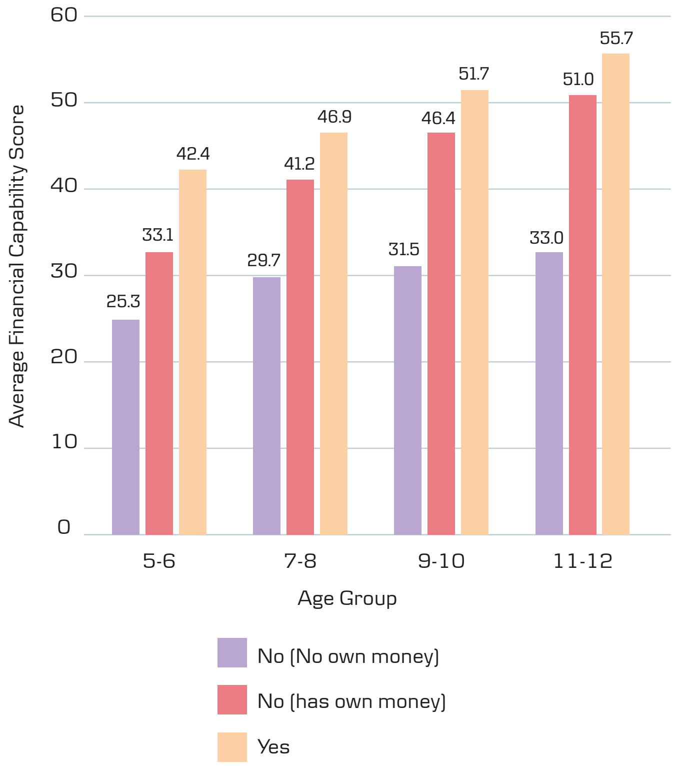


Receiving pocket money regularly

Children and young people across the Nordic countries who receive pocket money regularly have higher financial capability than those who have their own money but do not receive pocket money regularly. Both groups have higher financial capability than children and young people who do not have their own money:

"I receive regular pocket money (weekly or monthly)" (N = 3,690)

Source: /KL.7 & YouGov 2020



It is important to note that it is not the amount of money that matters, it is the frequency at which children interact with money.

Returning to the analogy of learning how to ride a bike, practising a few minutes several times per day or week is much more effective than practicing for an hour once a month.

Having and using a bank account

Another opportunity for getting experience with money is to have your own bank account. We asked children and young people who have a bank account what they use it for, providing the following options:

- To keep track of my money on a computer
- To keep track of my money on my mobile
- So I can withdraw money
- To see how much money I have
- So I can use a debit card
- For depositing money

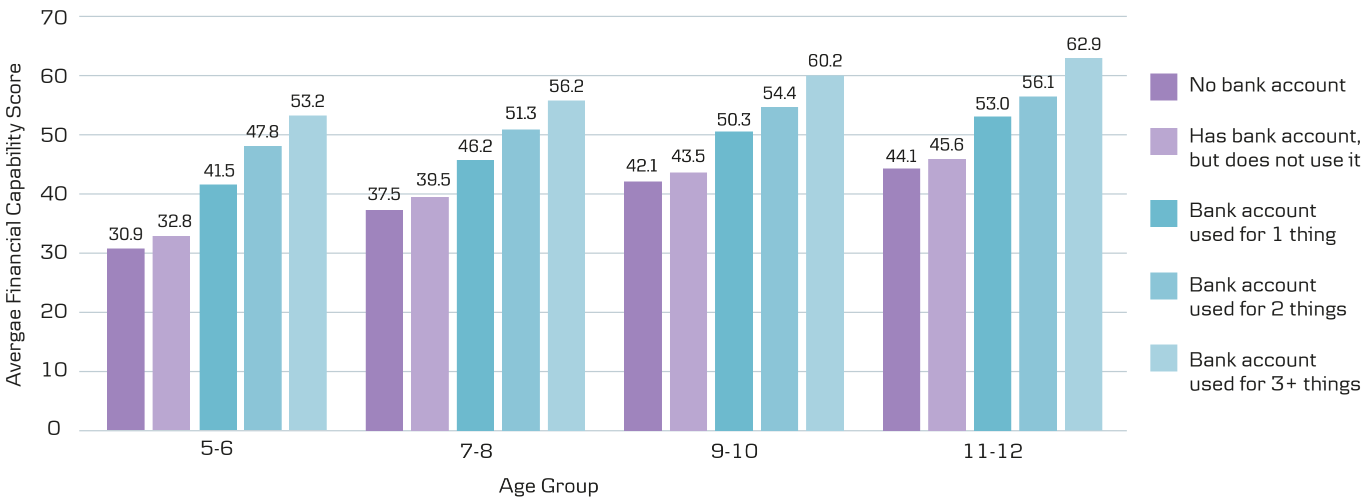
We see a positive correlation between the financial capability score and having and especially *using a* bank account. The more things a child or young person uses his or her bank account for, the higher their financial capability:

The data show that simply having a bank account but not using it is like not having a bank account at all, at least from a financial capability perspective.

In the cases of both pocket money and having a bank account, the pattern is clear and significant throughout the age groups: regular pocket money and frequent use of a bank account are correlated with high financial capability.

Having and using a bank account and financial capability (N = 3,690)

Source: /KL.7 & YouGov 2020

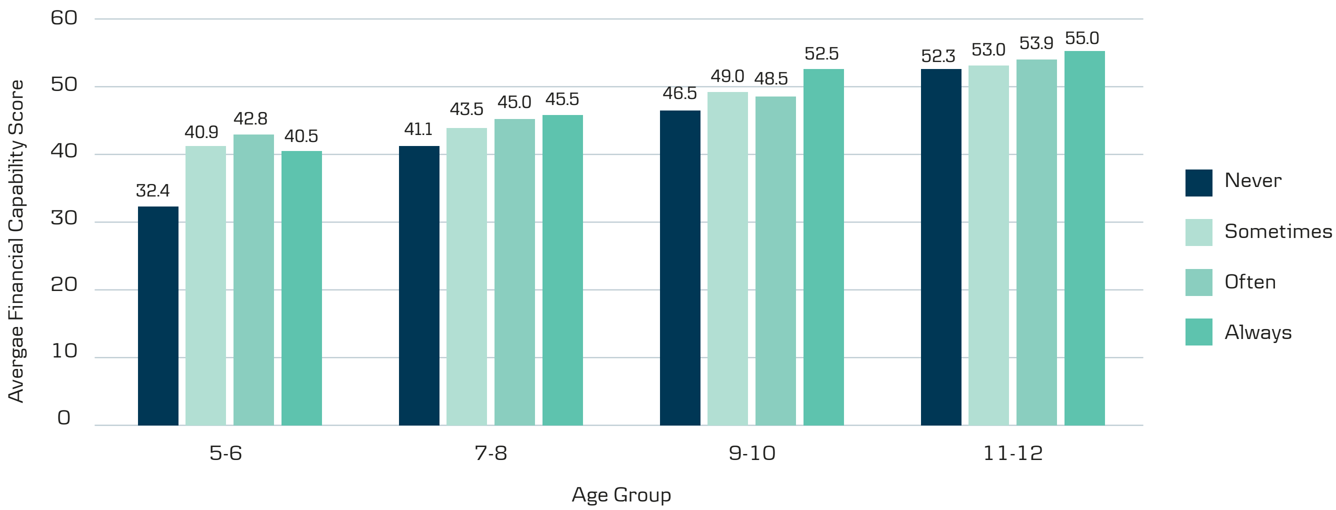


Paying for things

When it comes to the correlation between paying for your own toys and financial capability, we see a different pattern:

"How often do you pay for games or apps for a phone, computer or console yourself?" (N = 3,690)

Source: /KL.7 & YouGov 2020



Among the youngest children aged five to six, the effect on financial capability is significant when the children 'sometimes' or 'often' pay for games or apps for a phone, computer or console themselves. There is a slight decline in financial capability for young children who are 'always' in charge, indicating that young children in particular need more parental support than older children and young people.

The focus here is on toys and games, but the main point is that it is not the specific thing or situation in which children and young people experience financial decision-making in itself that matters the most. The important thing is to give them multiple opportunities to practice what it means to spend money – and what not being able to spend the same money twice feels like.

Practice and experience comes in many forms

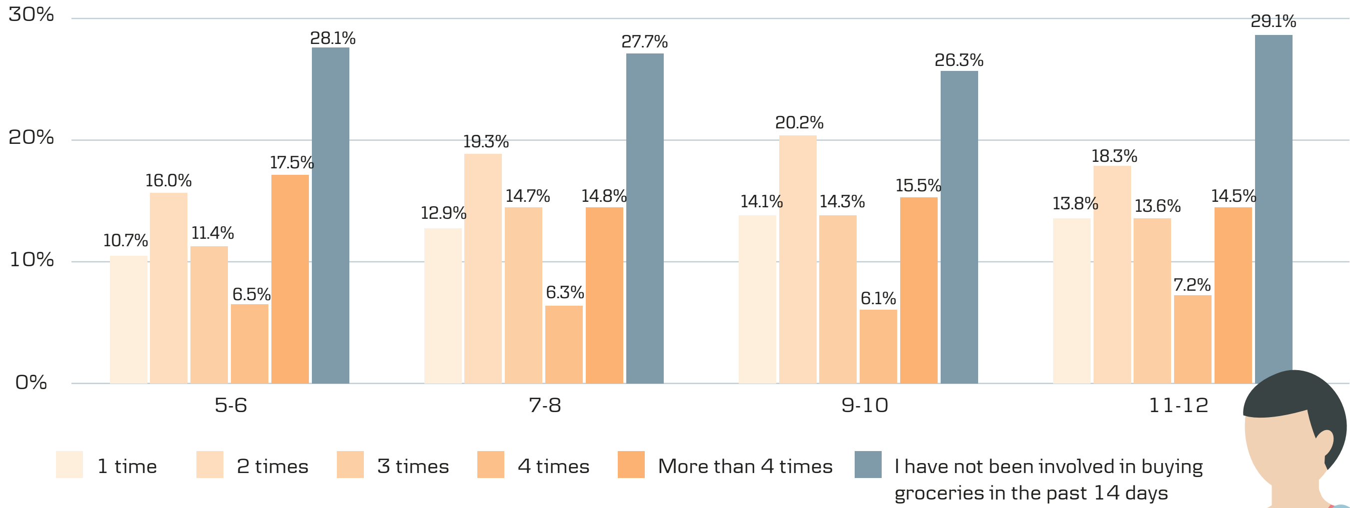
Giving children and young people their own money, allowing them to gain experience with financial decision-making, is the most effective pathway to financial capability. But there are many other opportunities for children to learn.

For instance, approximately 75% of children and young people in the Nordic countries have been involved in grocery shopping:

75%
of children and young people in the Nordic countries have been involved in buying groceries

"During the past 14 days, how many times have you been involved in buying groceries (either physically or online)" (N = 3,690)

Source: /KL.7 & YouGov 2020



However, more than one in four children do not seem to be included in grocery shopping either in physical stores or online[9].

Observing patterns in their environment, children and young people who see financial transactions taking place, who talk to their parents while shopping about why apparently similar products are not the same price, and who are given frequent opportunities to learn will have the best environment in which to build financial capability.

Tip: Experiences with financial decision-making

Besides giving children and young people their own pocket money on a regular basis and a bank account, there are many other opportunities to improve Connection through experience with financial decision-making.

Here are two exercises that parents can try out at home:

Cash week

Use cash for all your spending all week.

During the week, involve your child when you pay for things.

Let them hand over the cash and help older children to count it out first or check the change.

Planning exercise

List the things you will be doing with your child over the next few days, including public transport and snacks.

Put cash covering their total cost in a purse or wallet, then ask your child to pay for each thing at the till using the money in the purse.

If they ask for something extra, explain this might not leave enough in the purse for other things they want.

Strong financial capability starts early

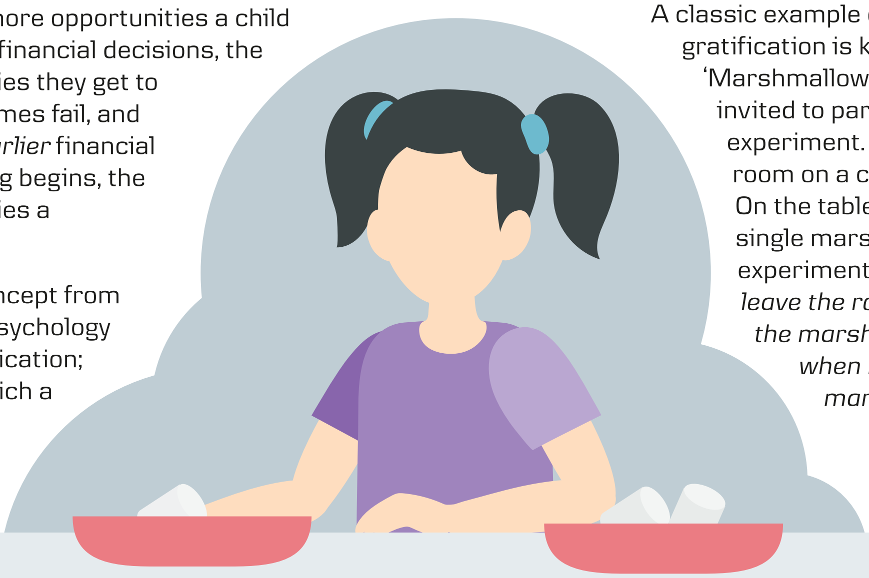
One of the most important insights when it comes to teaching children about money is: The earlier, the better. The psychological foundation of financial capability is established when children are seven years old[10].

Simply put, the more opportunities a child is given to make financial decisions, the more opportunities they get to practice, sometimes fail, and learn. And the *earlier* financial capability building begins, the more opportunities a child will have.

A well-known concept from developmental psychology is delaying gratification; the degree to which a person is able to withstand an immediate reward in order to receive a larger reward later.

Delaying gratification

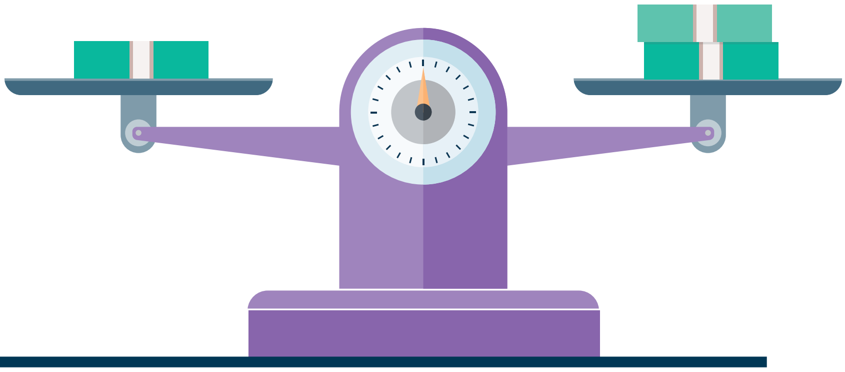
A classic example of studying delayed gratification is known as the 'Marshmallow test'[11]. Children are invited to participate in an experiment. They are placed in a room on a chair in front of a table. On the table there is a plate with a single marshmallow. The experimenter says: "*I just have to leave the room for a little while. If the marshmallow is still there when I get back, you get two marshmallows.*"



The experiment was designed to investigate children's ability to delay immediate gratification in order to receive a larger reward later.

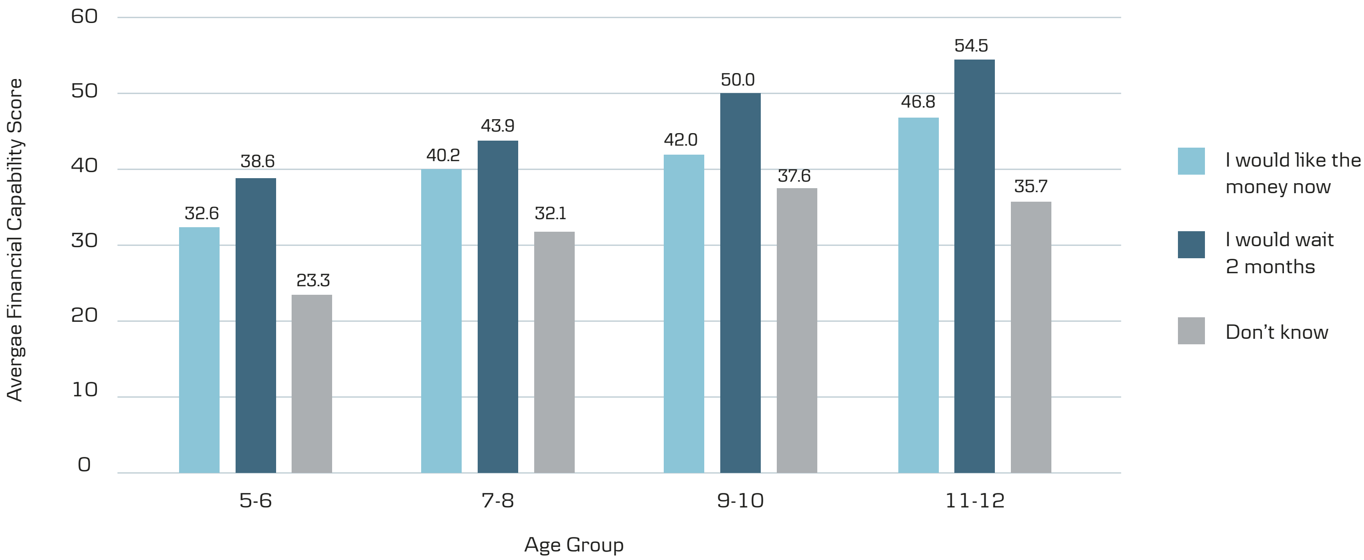
Researchers followed up with a subset of the participating children when they reached adolescence and found that those who were able to delay gratification – and received two marshmallows as children – tended to have better academic achievement and life success compared to those who did not wait.

We asked the participants in our survey a conceptually similar question:



"Imagine being offered some money. You can get 1000 DKK now or 2000 DKK if you wait 2 months." (N = 3,690)

Source: /KL.7 & YouGov 2020



The children and young people who, at least when asked about it, are able to delay gratification have higher financial capability scores. Interestingly, those who did not know how to handle such a choice scored much lower than those who said they would have the smaller amount of money immediately[12,13].

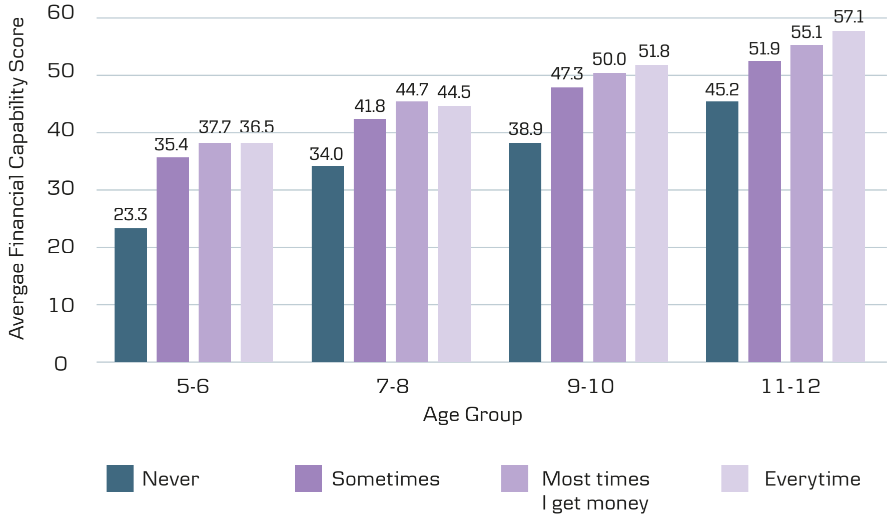
Delaying immediate gratification is a prerequisite for developing a 'savings mindset', which in our data correlate with high financial capability.

A 'Savings mindset'

There is a significant difference in financial capability between children and young people who save money and those who do not:

"How often do you save up when you get money?" (N = 3,341)

Source: /KL.7 & YouGov 2020



With children, there is a difference in whether they save or not. With young people, there seems to be a linear connection between frequency of saving and financial capability; children only need to know the difference between saving and not saving, while young people aged 9-12 benefit from saving most times or every time they get money. This savings mindset clearly correlates with the overall financial capability score in that those who save money have much higher scores.

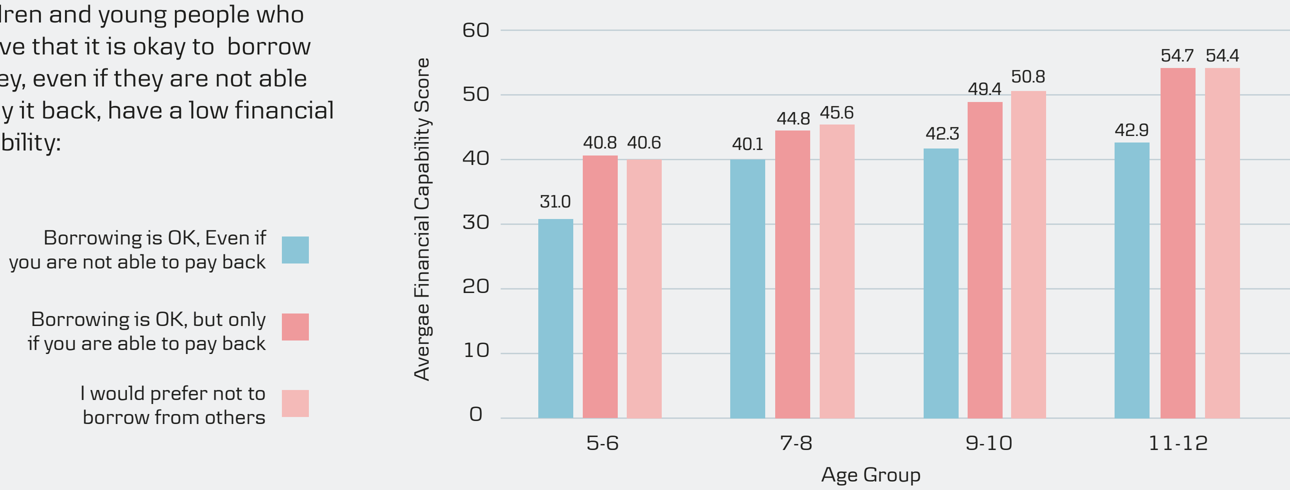
Beliefs about borrowing

Another important aspect of financial capability is one's beliefs about borrowing money.

Children and young people who believe that it is okay to borrow money, even if they are not able to pay it back, have a low financial capability:

"Which sentence describes best what you think about borrowing money?" (N=3,690)

Source: /KL.7 & YouGov 2020



There is no significant difference between those who prefer not to borrow money at all and those who believe it is OK to borrow money, but only if you are able to pay it back.

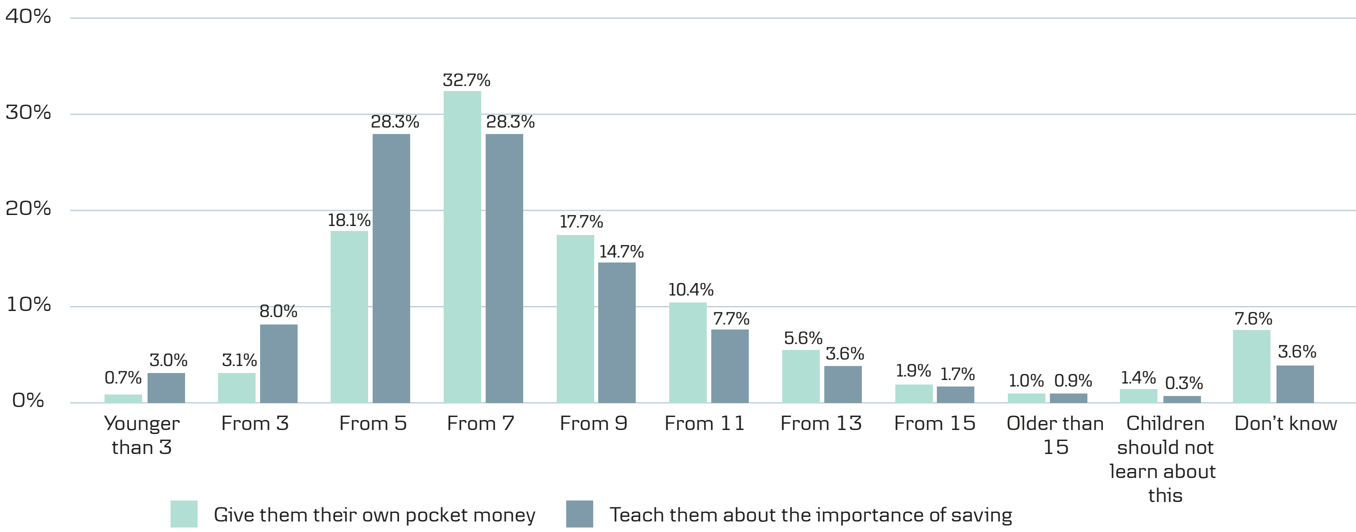
When should children begin receiving pocket money?

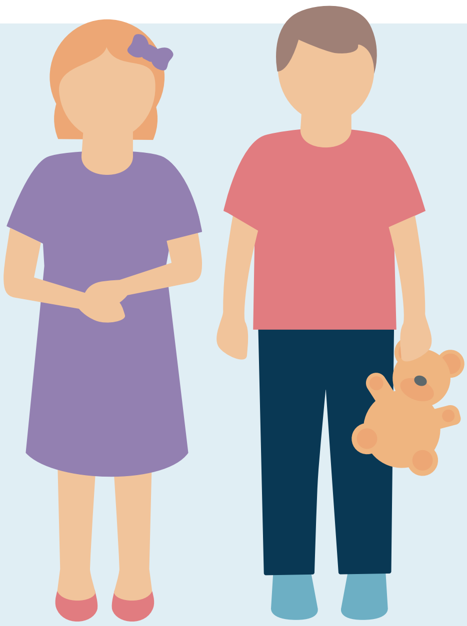
Getting early experiences with money and financial decisions depend on parents and their beliefs and attitudes towards money. Research[14] shows that parents
1. tend to support children's Ability, rather than Connection and Mindset
2. often say the right thing, but fail to follow their own advice about financial decision-making
3. sometimes do not understand the underlying reasons why the moral sayings they use as advice are beneficial in the long run

We asked parents at what age children should begin receiving their own pocket money and at what age children should begin learning about the importance of saving money:

"How old do you think children should be before you start with the following activities?" (N = 3,690)

Source: /KL.7 & YouGov 2020





Nordic parents are better at supporting children and young people's Ability than Connection. More parents believe that they should start teaching their children about the importance of saving money *before* they believe they should give them their own pocket money.

The data show that just over half of the parents think that children should begin receiving pocket money at the age of seven or earlier. But as we saw in the beginning if this section, the foundation for strong financial capability is set by the age of seven, which points to the benefits of starting even earlier. Interestingly, less than one in four parents think that the right age to start giving pocket money is from the age of five or before.

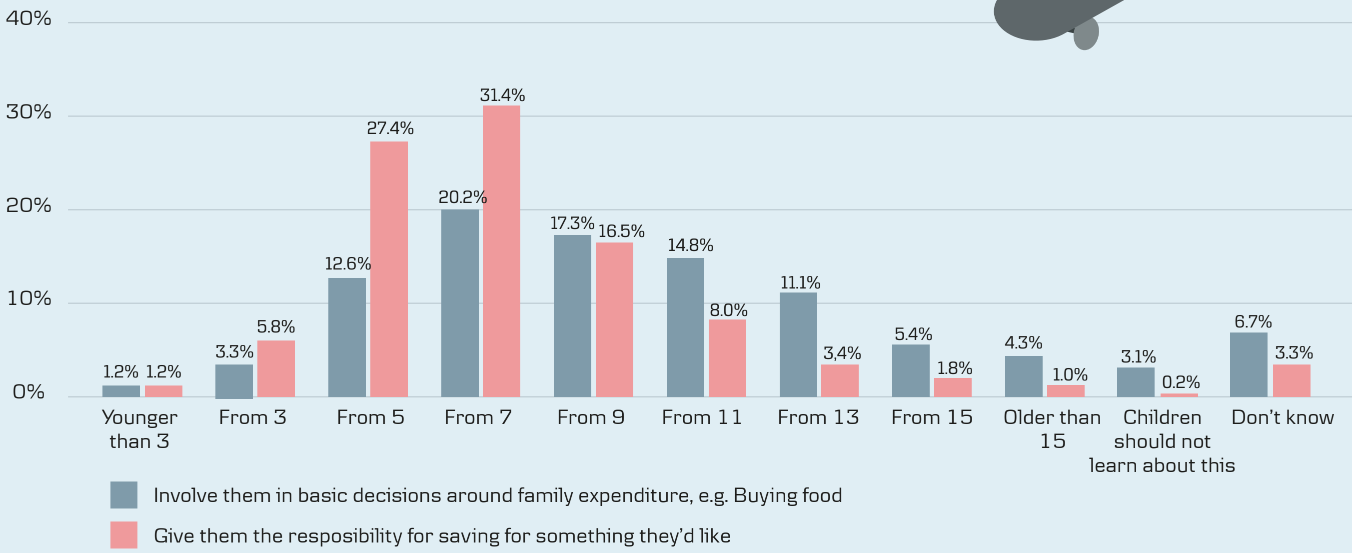
Data show that receiving pocket money is a fantastic lever for supporting financial capability. Giving your child a small amount of pocket money at an early age, from five years old or even younger, will therefore only strengthen the child's financial capability.

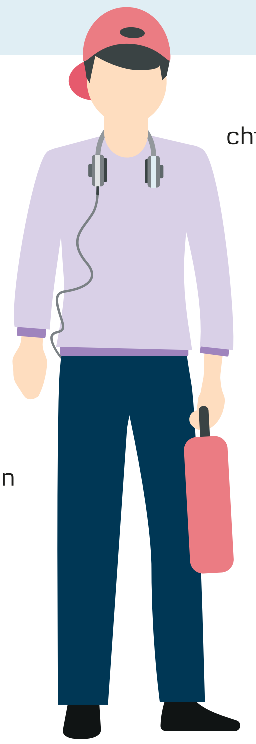
Importantly, 1 in 10 parents believes that children should be at least 13 year old before receiving pocket money or should not receive pocket money at all. This means that 1 in 10 children or young people in this analysis are not given the opportunity to practice the financial decision-making skills that they will inevitably need, once they become fully responsible for their own financial situation.

Further, there is a discrepancy when we asked the parents about when children and young people 1) should be involved in basic decisions about family expenditure and 2) should be given the responsibility for saving up for something they would like:

"How old do you think children should be before you start with the following activities?" (N = 3,690)

Source: /KL.7 & YouGov 2020





Both involvement in basic financial decisions about family expenditure and being responsible for saving money for something you would like are important for building financial capability.

But given that basic financial decisions are made much more often than saving up for something, it would be better if more parents believed that children should be involved in basic financial decisions earlier than our data show, because there is strong evidence behind the claim that starting early is better.

Two in three parents think that children should be responsible for saving up for something they would like from the age of seven or before. In contrast, only just over one in three parents thinks they should be involved in basic decisions about family expenditure at this age.

Only 6% of parents think that children should be 13 years or older before being responsible for saving up for something they would like, whereas 24% of parents think children should be this age before being involved in decisions about family expenditure – if at all.

The benefits of starting early

A study[15] from 2018 investigated the financial capability of a group of children and revisited them a few years later when they had grown into young adults.

Young adults who had high financial numeracy when they were children:

- had a higher amount of savings
- were more likely to choose long term over short term financial gain
- were less likely to borrow e.g. overdraft, credit card and from friends/family

Young adults who actively saved or had a savings mindset when they were children:

- felt more confident making decisions about financial products and services
- were less likely to borrow, e.g. overdraft, credit card and from friends/family
- were less likely to feel burdened by bills

Young adults who were more likely to set goals when they were children:

- were less likely to feel pressured to spend the same amount of money as their friends when they could not afford it

Tip: Planning a trip to the grocery store

The primary tip for parents and caregivers is to realise the importance of starting early. Building financial capability requires opportunities to practice. Starting early means that children will get more opportunities to practice and learn.

Here is an effective way of turning an ordinary trip to the grocery store into a learning experience.

Grocery shopping – the financially capable way

Children as young as 3-4 years old are often eager to help and can easily be involved in planning a trip to the grocery store:

- Ask the children to help plan what you are going to buy
- Make a shopping list together
- Divide the list into things you need (food, household items) and things you want (candy, treats)
- Go shopping (can also be done through an online supermarket)
- Thank the children for their help

Understanding the role of money in society

Traditional attempts at preparing children and young people for lives that include many financial decisions have focused on traditional teaching and on providing information.

One of the largest studies on financial literacy to date[16] has investigated the influence of financial literacy education on financial behaviours. This study examined the results from 168 research papers covering 201 academic studies:

> *"We find that interventions to improve financial literacy explain only 0.1% of the variance in financial behaviors studied, with weaker effects in low-income samples."*

Financial literacy (i.e. Ability) alone does not account for the nature of financial behaviours. However, there are types of knowledge that do correlate with high financial capability: knowledge and understanding of the role of money in society.

The purpose of taxation

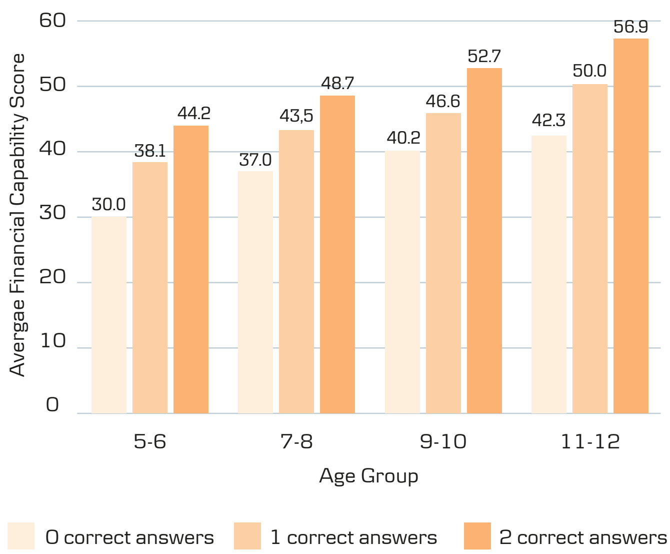
Children and young people's general knowledge about the function of money in society is a strong indicator of financial capability.

For instance, the children and young people with most correct answers to questions about the purpose of taxation have the highest financial capability. The children and young people were asked what the purpose of taxation is and they could select multiple answers among the following:

- To pay for hospitals and roads
- To make sure that people don't earn too much money
- To pay for people's lottery winnings
- To pay for the police and school
- To pay for the goods in supermarkets

Correct answers about the purpose of taxation (N = 3,690)

Source: /KL.7 & YouGov 2020

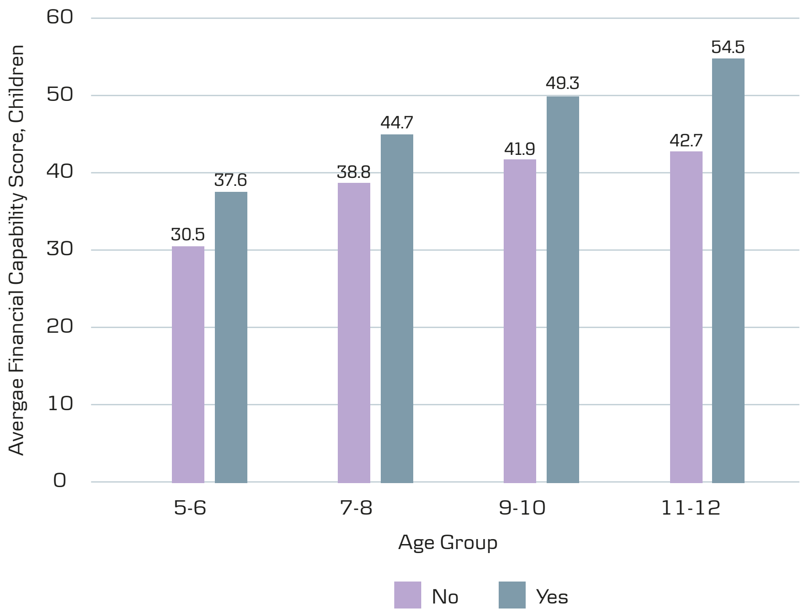


The purpose of commercials

Another example is the awareness of what commercials are meant to do. Those who are aware that commercials are meant to make you buy something have a higher financial capability than those who do not think that this is their aim:

"The purpose with commercials is to make me buy things." (N = 2,733)

Source: /KL.7 & YouGov 2020



This further demonstrates that knowledge about the role of money in society, exemplified here in the form of commercials, is a good indicator of overall financial capability.

A large part of understanding the role of money in society is learning in school, but there are many opportunities for parents and caregivers to help children and young people gain a deeper understanding.

Tip: Reflect on financial decision making in movies or TV-series

If children or young people are watching TV or videos online, join them. Tell them about how most commercials are designed to make people buy things and services – also the more subtle advertisements by their favourite youtubers.

Tell them what happens when a character in a movie or TV show buys something. Situations in which their favourite character makes a financial decision or trades one thing for another is a particularly good opportunity to talk about money, because the conversation will be rooted in something they are already interested in.

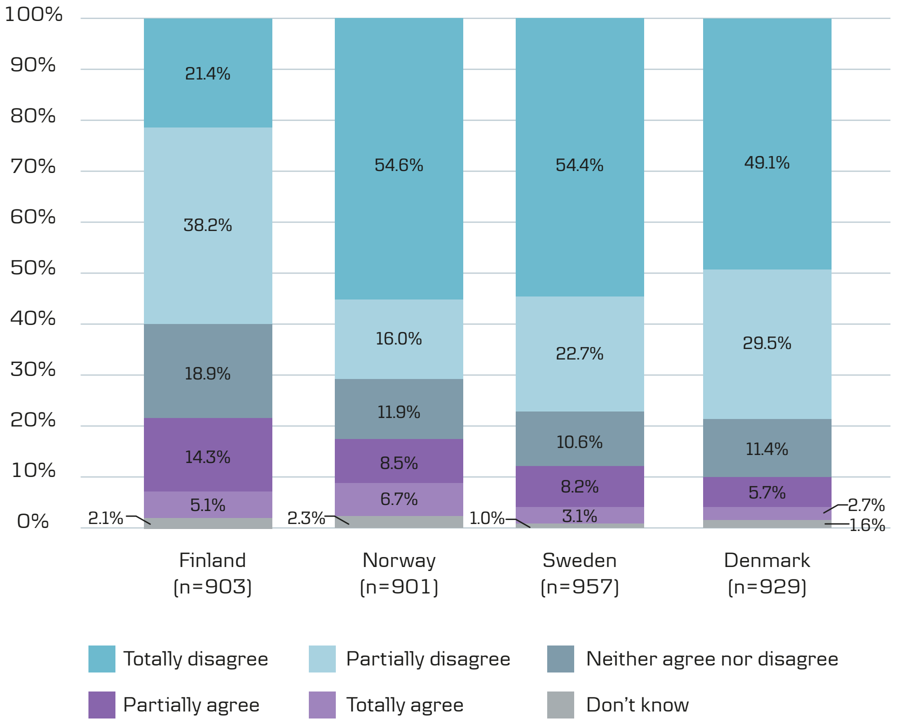
Parental behaviour is essential

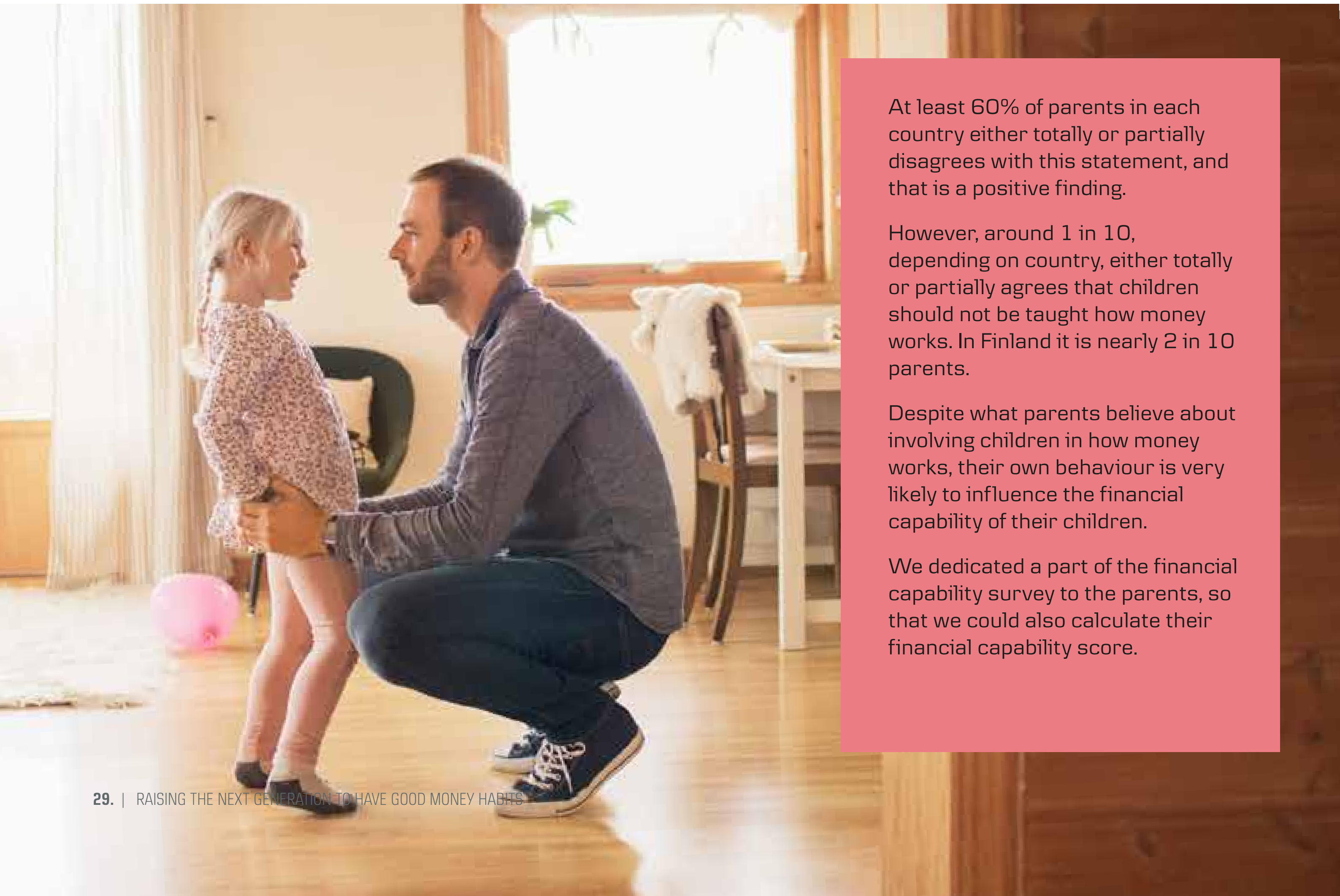
As mentioned in the introduction, children primarily learn through imitation (doing what others do and trying things themselves) and induction (observing and recognising patterns). These learning strategies mean that parental *behaviour* to a large extent is more important for building financial capability than what the parents actually say.

Our data show differences in the degree to which parents in the Nordic countries agree that children should not be taught how money works:

To what extent do you agree or disagree with the statement: "Children should be spared being involved in how money works" (N = 3,690)

Source: /KL.7 & YouGov 2020





At least 60% of parents in each country either totally or partially disagrees with this statement, and that is a positive finding.

However, around 1 in 10, depending on country, either totally or partially agrees that children should not be taught how money works. In Finland it is nearly 2 in 10 parents.

Despite what parents believe about involving children in how money works, their own behaviour is very likely to influence the financial capability of their children.

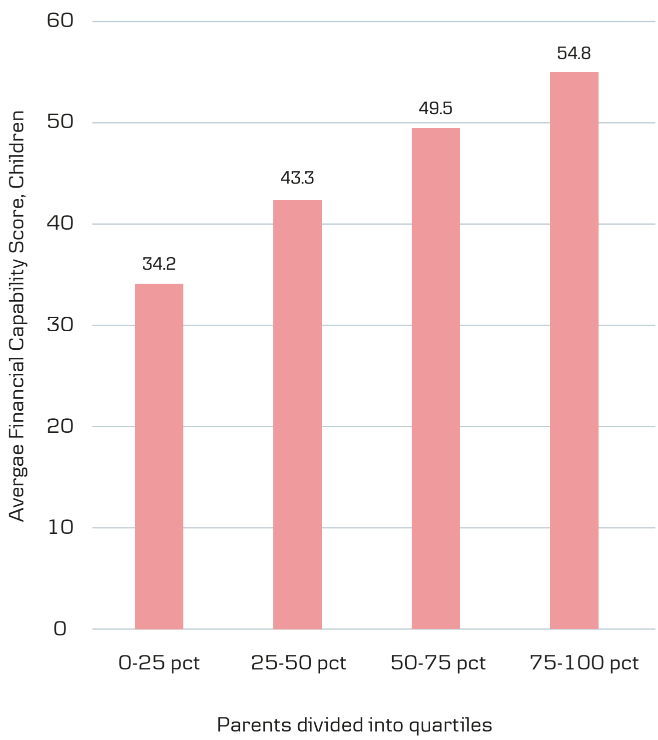
We dedicated a part of the financial capability survey to the parents, so that we could also calculate their financial capability score.

The influence of parents' own financial capability

The parents' financial capability scores correlate with the scores of their children. The higher the parents' score, the higher the children's/young people's score:

Correlation between parents' and children's financial capability scores (N = 3,690)

Source: /KL.7 & YouGov 2020



The **25%** of the children with the parents scoring the lowest are also the group of children and young people scoring the lowest.

The chart above shows the parents' scores split into quartiles. This simply means that the parents have been split into four groups according to their scores with 25% of the parents in each group. '0-25 pct' refers to the lowest quarter of all the scores. '75-100 pct' refers to the highest quarter of all the scores. The financial capability scores of the children are then represented above each quartile depending on the parents' scores.

We have lined up all 3,690 parents according to their own financial capability score, divided them into four groups from lowest to highest score, and then we have taken the average child financial capability score for each of the four groups.

The pattern shows that there is a clear correlation between the parents' financial capability and their children's financial capability. The 25% of the children with the parents scoring the lowest are also the group of children and young people scoring the lowest. Children whose parents score the highest also score highest themselves.

Though there is a significant effect on the financial capability score from age alone, this pattern is stable across all age groups, which underlines the influence of parent capability and behaviour.

Research on financial capability from Cambridge University[17] emphasises that parents should not underestimate the effect their own good (and bad) financial decision-making can have on their children:

Negative Parent Influence	Positive Parent Influence
• When parents/carers felt anxious about money, the young person was more likely to buy on impulse, to borrow, and to feel pressure to buy • When parents/carers did not think anything they did would make a difference to their financial situation, the young person was more likely to borrow • When parents/carers were over-indebted, the young person was more likely to borrow	• When parents/carers saved regularly, the young person was less likely to borrow • When parents/carers considered themselves to be a good role model, the young person was more likely to choose long term over short term gain. They were also less likely to borrow, to use credit products, and to feel pressure to buy • When parents/carers thought they could affect their child's behaviour, the young person was less likely to buy on impulse, to borrow, and to feel pressure to buy

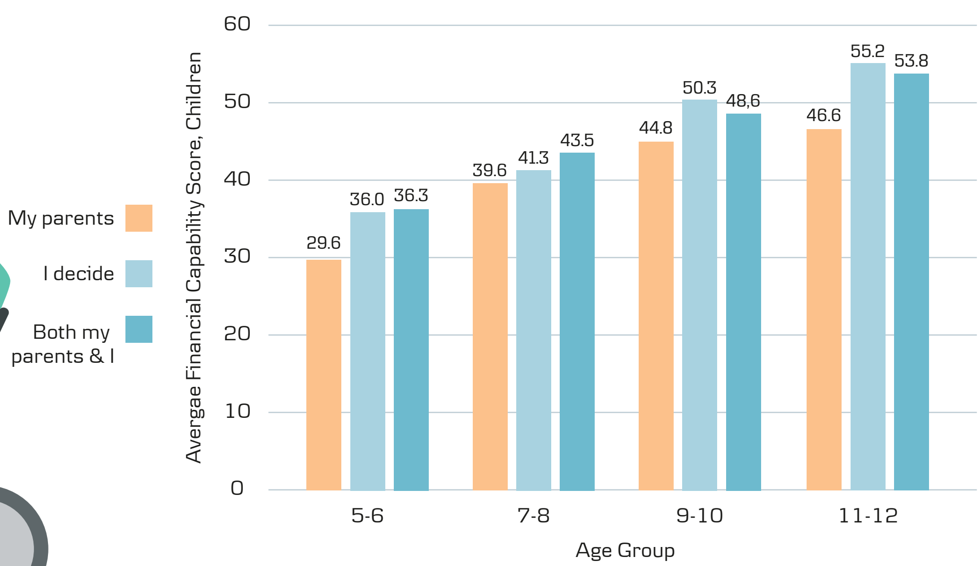
Parent influence mainly comes from designating and sharing responsibility for financial decisions.

Shared responsibility for how money is spent

Experience also comes from being given responsibility for your own financial decisions. Here, we see a difference in financial capability between those children and young people whose parents decide how money is spent, and those who either decide by themselves or in cooperation with their parents:

"Who usually decides how you spend your money?" (N = 3,690)

Source: /KL.7 & YouGov 2020

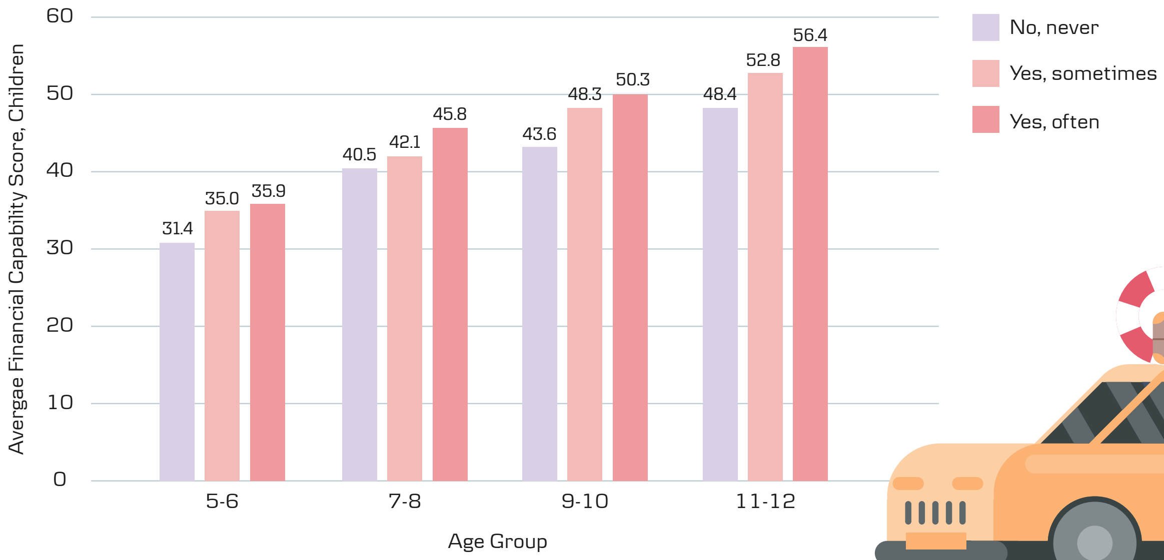


The patterns in these data are less clear than other aspects of financial capability, but they do suggest that giving children and young people *part* of the responsibility of deciding how they spend their own money is connected to higher overall financial capability.

Another predictor of financial capability is to include children and young people in daily financial decisions, such as involving them in what to buy when buying groceries as mentioned earlier, or where to go on excursions or weekend trips with the family:

"Are you involved in deciding where to go on excursions or weekend trips with the family?" (N = 3,690)

Source: /KL.7 & YouGov 2020



Our data clearly show that children who are involved in deciding where to go on excursions or weekend trips with the family have higher financial capability scores.

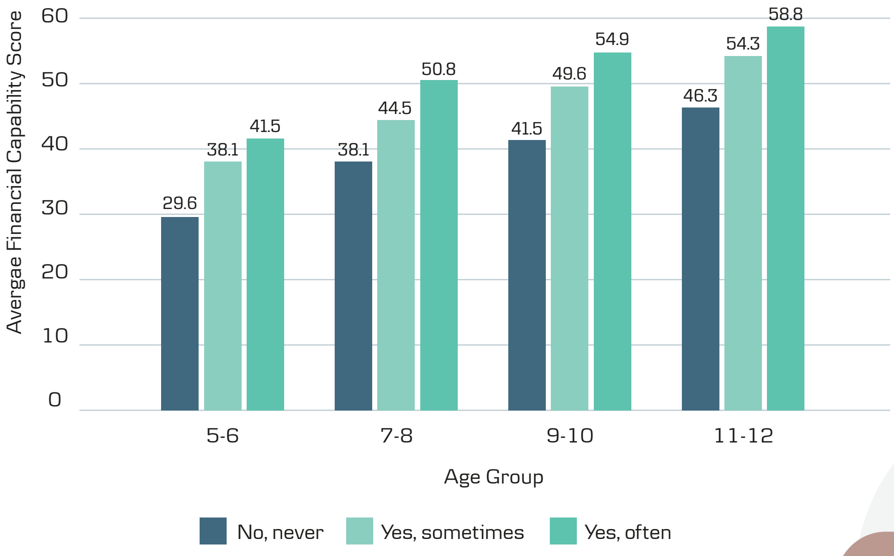
The reason why sharing responsibility about financial decision-making is good for building financial capability is that sharing responsibility entails that parents are open about their own financial decision-making and that they talk to their children about money.

Be open about money

As previously described, children learn through imitation. We also see a strong connection between financial capability and the extent to which a child or young person has seen their parents manage money matters with the bank:

"Have you seen your parents manage money matters with the bank?" (N = 3,690)

Source: /KL.7 & YouGov 2020

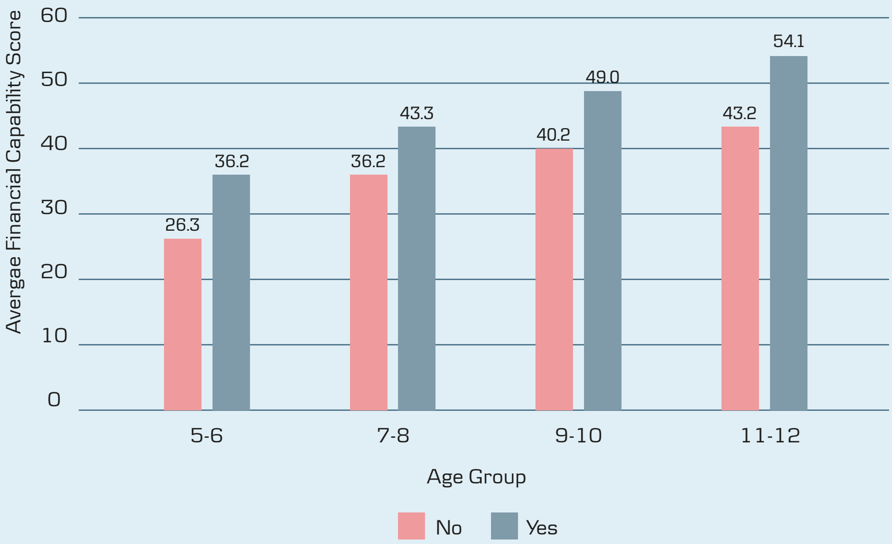


Just as including children in grocery shopping is good for building experience, letting them see how money matters are handled with the bank or other types of financial decisions builds financial capability.

Letting children and young people experience financial decision -making is part of another influential pathway to learning about money. Namely, talking to them about money in general:

"I talk to my parents about money" (N = 3,690)

Source: /KL.7 & YouGov 2020



Children and young people who say they talk to their parents about money have higher financial capability than those who do not.

Research[18] even suggests that talking to children about money can improve the financial capability of the whole household. The research involved a pilot course to help parents teach their children about money, which resulted in:

- a 15-percentage point decrease in the number of overindebted parents
- long-term positive impacts on both children's and parents' money habits

Sarah Porretta, Strategy and Insights Director at the Money and Pensions Service, said about the pilot course:

"The results from the study are really positive. It proves that earlier really is better when it comes to introducing your children to money.

It's also important to remember that you don't need to be a financial whiz to steer them onto the path to success. In fact, you can teach children a lot through everyday activities. Get them to help you make shopping lists, or involve them in household budgeting – and don't think you have to shelter them from conversations about money.

Children can start learning about money from as early as the age of three. And a lot of the money habits they will need as adults have already started to develop by the age of seven. But they can pick up new skills as they get older too, so it's never too late to help them."

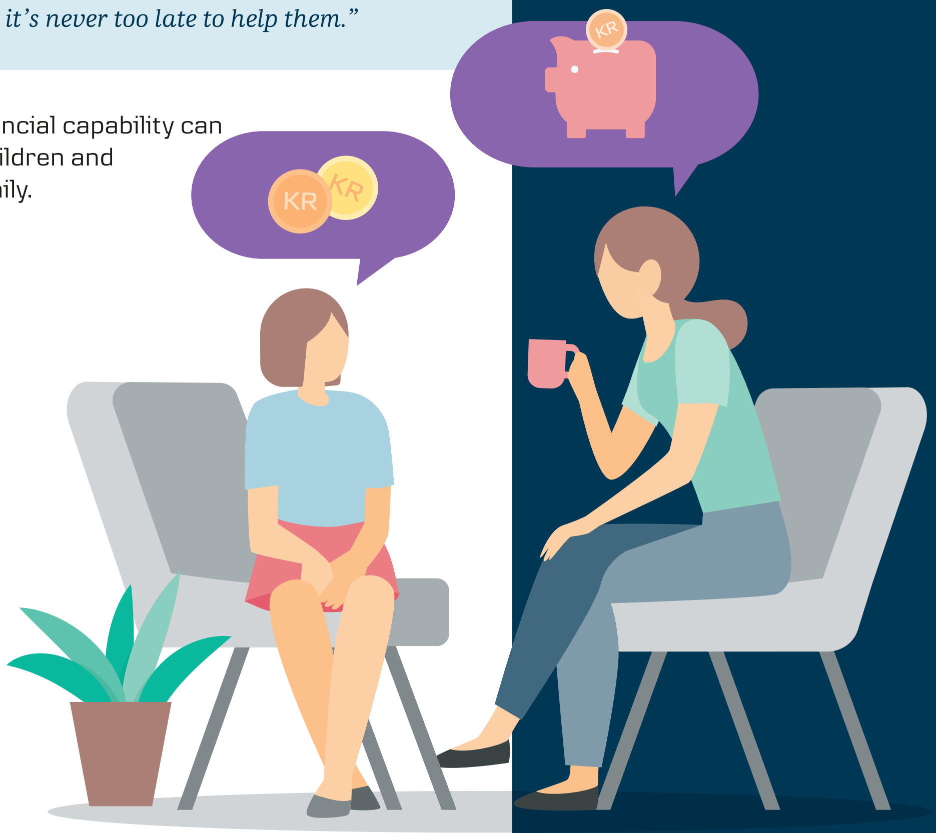
In summary, building strong financial capability can be valuable to both individual children and young people, and the whole family.

Tip: Talk about money

The primary tip for parents is to involve their children as much as possible in their own financial decisions:

- Talk about money and financial decision-making as openly as possible
- Take them grocery shopping and tell them about how stores are designed to make customers buy specific things
- Stick to what you have agreed and do not give in to nagging
- Include them in your own financial decision-making, ask for their advice

Based on our own survey results and the research presented here, we will now present how we will work to improve financial capability in the Nordic countries.



CHAPTER 3.

The future: Shifting the curves by working together

In this section

- Improving financial capability requires shifting the curves through collaboration
- We have made a range of initiatives that will make it easier for both parents and teachers to help children and young people build strong financial capability
- Financial capability is the pathway to sustainable consumption

The goal of this report is to present our new insights on the financial capability of children and young people and their parents in the Nordic countries. These insights will improve our future work on supporting children, young people and parents in a world where money has become digital and 'invisible'.

A transformation from information and literacy to behaviour and capability

We have measured financial capability across the Nordic countries through our framework focusing on Connection, Mindset and Ability. Including Connection and Mindset as important factors for understanding financial capability is a shift from a more traditional focus on improving children's knowledge and literacy.

The new insights gained from this report are that we need to create awareness about the importance of starting early. Children need to have access to their own money so they can practice financial decision-making as often as possible.

We also find that supporting children in establishing a *savings mindset* is also an important factor in building their financial capability and thereby laying the foundations for future financial confidence.

Also, the effect of the financial behaviour of parents and the degree to which they include children in financial decision-making and talk to them about money cannot be underestimated. As money becomes digital, children need a digital space where they can learn. This emphasises the importance of supporting parents with tools and knowledge on how they can introduce money in a digital world to their children in a safe and engaging way.

We believe in these insights, not just because financially capable people are good bank customers, but because the sciences of behaviour and developmental psychology tell us that financial capability is a gateway to financial confidence, which, in turn, is good for individuals, families, organisations and society.

Zooming out on financial capability scores

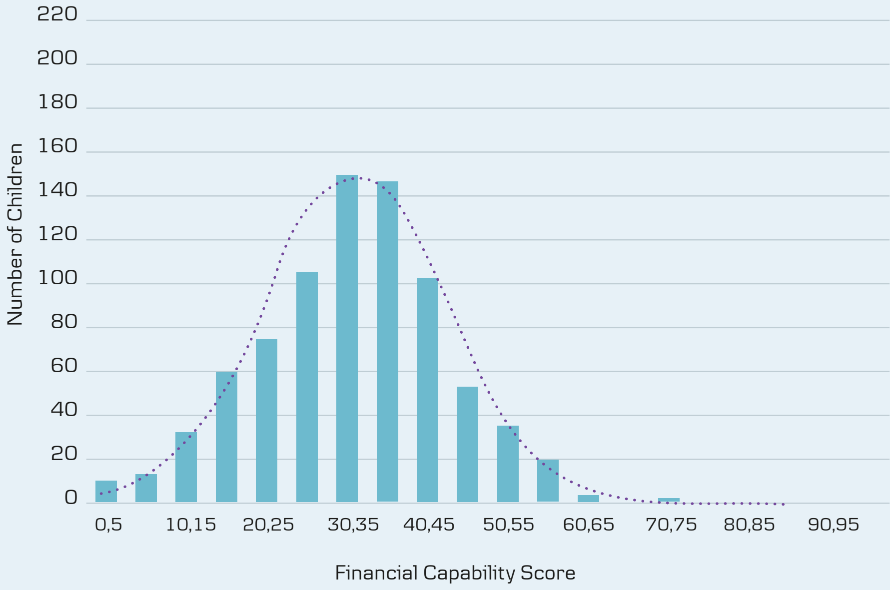
Taking an overall look at the financial capability of children and young people in the Nordic countries, we are now able to present some conclusions and perspectives for the future.

Naturally, a five-year-old child will not be able to obtain the same financial capability score as a 12-year-old young person. The young person has had many more opportunities to practice.

The distribution of the financial capability scores for the five to six-year-old children in the Nordic countries is presented here:

Distribution of financial capability scores five to six-year-olds (N = 815)

Source: /KL.7 & YouGov 2020

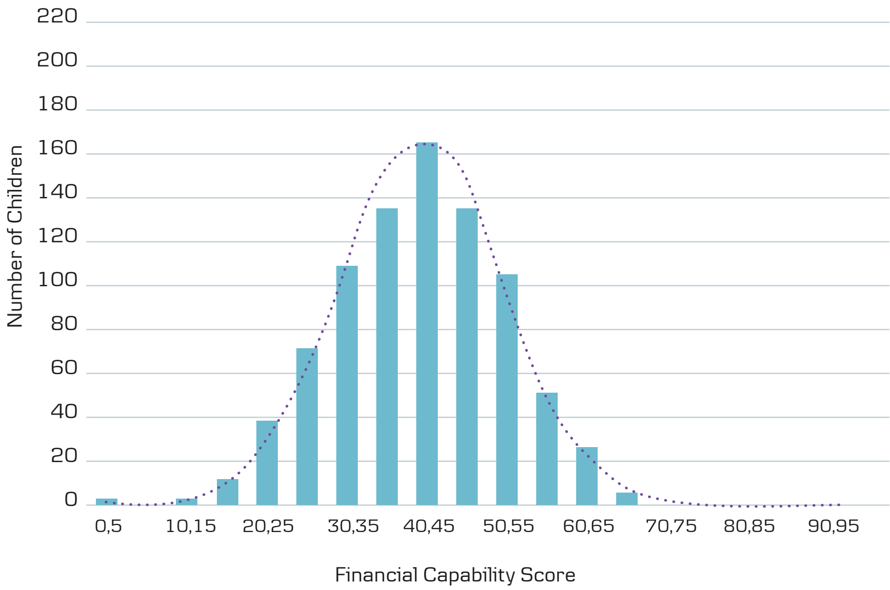


The data shows that a normal financial capability for a five to six-year-old right now is in the 30-40 range. Three exceptional children have scores above 60.

As children age, we should expect to see the curved shape of the bars shift towards the right. We see this already with the seven to eight-year-olds:

Distribution of financial capability scores seven to eight-year-olds (N = 860)

Source: /KL.7 & YouGov 2020

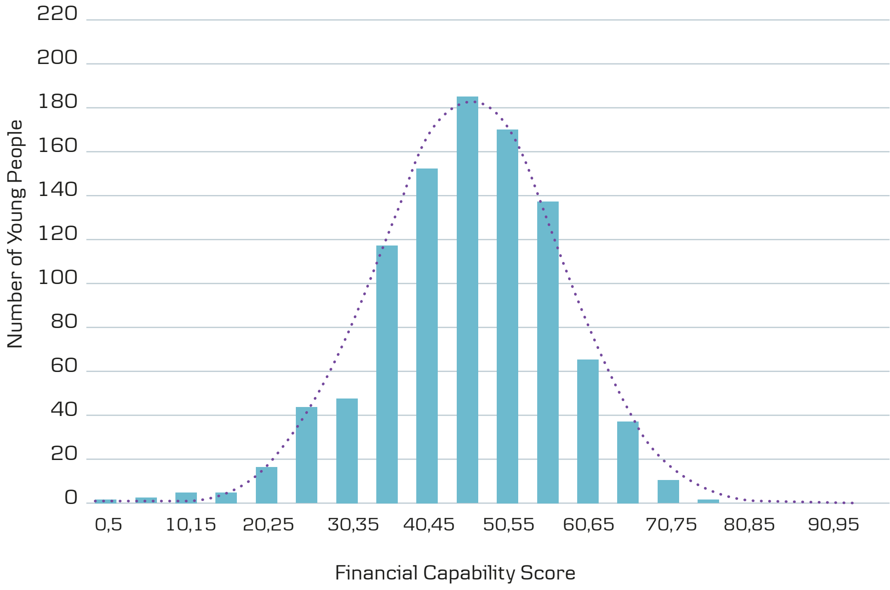


The whole distribution is shifted towards the right, which shows that the normal financial capability is higher for this age group – around 35-45.

With the 9-10-year-olds, the pattern has shifted more to the right, showing a normal financial capability score between 45-55:

Distribution of financial capability scores 9 to 10-year-olds (N = 1,004)

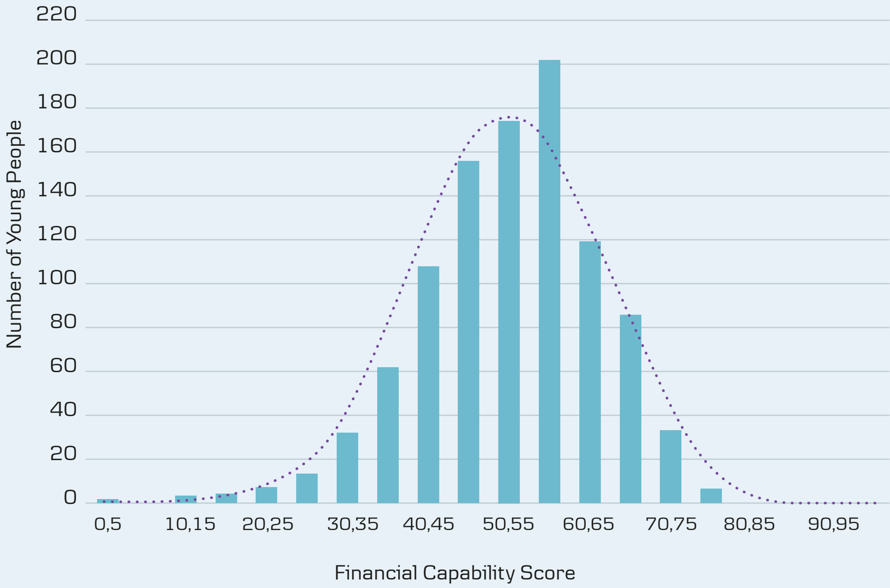
Source: /KL.7 & YouGov 2020



And last but not least, the scores for the young people aged 11-12:

Distribution of financial capability scores 11 to 12-year-olds (N = 1,011)

Source: /KL.7 & YouGov 2020

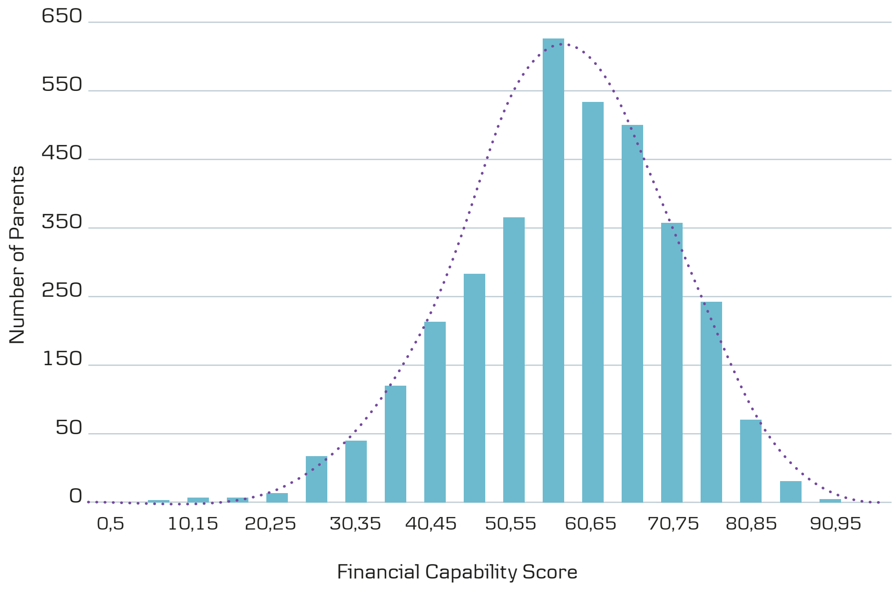


Here, we see a normal financial capability in the 50-60 range, approximately.

For the parents, the data show that a normal financial capability score is in the 60-70 range:

Distribution of financial capability scores parents (N = 3,690)

Source: /KL.7 & YouGov 2020



These data show what financial capability in the Nordic countries looks like right now. They represent a baseline, which means that we cannot say with certainty that any of the average financial capability scores are inherently 'good' or 'bad'. But we can see that there is a large group of children and young people with average scores and small groups that have either high and low scores.

Improving financial capability across the Nordic countries, i.e. shifting the curves towards the right, means learning from the participants with high scores and perhaps developing special initiatives and tools for those with the lowest scores.

If we want to help children and young people develop and practice their financial capability skills, there are a number of changes that we would like to see.

The future of financial capability

We are committed to putting financial confidence on the social agenda, and we will continue our work based on the knowledge and insights from this report.

We will use the results to shape and sharpen our tools and initiatives, so we support the initiative's target group in the best possible way. With a baseline from 3,500+ children and young people, we can now tailor impact metrics to our individual initiatives and programmes so that we can make them even better in the future.

Our ambition is to continue working with financial capability to include estimates of societal impact. This means answering questions such as:

- What are the effects on organisations and businesses if less Nordic citizens experience financial stress?
- What will a society of fully financially capable people look like?
- What changes would we see if all parents talked to their children about money and financial decision-making?
- How can we link financial capability with sustainable consumption and other Sustainable Development Goals?

Financial capability comes from Connection, Mindset and Ability. These elements are difficult to master in individual learning contexts.

If we as a society want to support children and young people in developing and practising the skills they need to become responsible citizens with a thorough understanding of – and experience with – sustainable financial behaviour, one thing is certain: we – banks, organisations, the educational sector and parents – must work together.

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<https://mascdn.azureedge.net/cms/the-money-advice-service-habit-formation-and-learning-in-young-children-may2013.pdf>

[7] The maximum score for each category is Connection = 40 points, Mindset = 40 points, Ability = 20 points. That is, the financial capability score is thus an index of 100 possible points.

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<https://mascdn.azureedge.net/cms/the-money-advice-service-habit-formation-and-learning-in-young-children-may2013.pdf>

[9] Note that part of these data was collected during COVID-19 when governmental guidelines for shopping behaviour were in effect. In a normal situation, the result might look slightly different.

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Appendix

Methodology

In the following, we will describe the major methodological aspects and considerations about our work on building financial capability.

Key concepts

Here, we briefly describe the key concepts of the financial capability compass.

Connection

Connection refers to children's engagement with money and access to financial products/services, or, more technically:

- exposure and access to appropriate financial products and channels
- managed exposure to risk

Here are three examples of questions in the impact survey that investigate a child or young person's Connection:

- Do you have a bank account?
- How often do you pay for the following yourself?
  - Clothes and shoes
  - Toys, physical games, trading cards
  - Games or apps for a phone, computer or console
  - Snacks etc.
- Have you seen your parents arrange money matters with their bank?

Mindset

Mindset refers to children's values and attitudes towards money. In the financial capability model, Mindset is divided into two subcategories:

- Financial mindset
  - Attitudes towards money
  - Aspirations and goals
- General mindset
  - Self-confidence
  - Perseverance
  - Self-control

Here are some examples of the questions that investigate a child or young person's Mindset:

- Do you know how much money you have in total (without checking)?
- Do these statements apply to you?
  - My parents discuss with me what we can and cannot afford
  - When I see something in a shop and my parents say I - can't have it, I get irritated
  - When my friends have things I don't have, I get irritated

Imagine you are offered some money. You can either have 1,000 kroner straight away or you can wait two months and instead get 2,000 kroner.

Ability

Ability refers to children's financial knowledge and skills. Besides regular numeracy and math skills, Ability also covers knowledge about what basic things cost. Like the Mindset category, Ability is also divided into two subcategories:

- Financial ability
  - Understanding financial products and services
  - Understanding money management
  - Understanding the role of money in society
- Basic ability
  - Applied numeracy
  - Literacy
  - Problem-solving

Here are some example questions that investigate a child or young person's Ability:

- Have you learnt in school about how to manage your money?
- Which of these cost money, have already been paid for through taxes or are free?
  - Going to the park
  - Electricity at home
  - Going to the doctor's or the hospital
  - The water that comes out of the taps at home
- What is the purpose of tax?

Parents

- Who is responsible for deciding how your child's money is spent?
- How old do you think children should be before you start with the following activities?
  - Teaching them about the importance of savings
  - Giving them their own pocket money
  - Involving them in basic decisions about family expenditure, e.g. buying food
- How often do you set aside money from the houshold's total available funds?

The financial capability survey

The original Children and Young People Financial Capability Framework by The Money Advice Service (now The Money and Pensions Service) included surveys across the age groups 3-18 and was built by taking the most valid questions from the following surveys:

- Barclays Money Skills
- BHPS/Understanding Society Survey
- BIS Consumer Detriment Survey
- British Cohort Study (BCS) 1970
- CARALOC Locus of Control scale
- CitA Quids-in Financial Skills Evaluation
- Duckworth Grit Scale
- EagaCT Survey of financial and fuel hardship
- FCA Pay Day Loans questionnaire
- FSA Consumer Segmentation 2013
- Genworth Over Indebtedness Index
- HE Survey
- Join Sam
- Lawrence's Self Esteem Questionnaire (LAWSEQ)
- Longitudinal Study of Young People in England (LSYPE)
- Parents Opinion Survey 2010
- Rosenberg Self-Esteem Scale
- Survey of Personal Financial Literacy Among High School and College Students 2008 – revised for UK
- The Money Charity

Researchers from The Money Advice Service (MAS) have validated all the questions and modified them to fit the three elements Connection, Mindset and Capability.

To make the survey easier to implement, and based on expert guidance from YouGov, we selected the most important questions from each of the three elements. Then, the survey was translated into Danish, and a series of cognitive tests were carried out. Lastly, the survey was translated into Swedish, Norwegian and Finnish.

These tests are made by simply recruiting participants within the target group and have them answer the translated survey while thinking aloud. By noting their thoughts, we can identify specific words or phrases that might be challenging for informants to understand.

Data for the report have been collected across Denmark, Norway, Sweden and Finland from the 13 April to the 10 May 2020. A total of 3,690 children aged 5-12 and as many parents have participated in the study by answering a survey.

The data include 929 responses from Denmark, 901 from Norway, 957 from Sweden and 903 from Finland.

The survey was conducted by YouGov as a CAWI questionnaire made up of two parts: The first part with questions for the children and the second with questions for the parents. The questionnaire was distributed and answered in the local language.

Recruitment for the study was done through YouGov's representative panels in the four countries, where parents with at least one child aged 5-12 would be in the target audience. If more children in the household were between 5-12 years, the parent was instructed to invite the one whose birthday it was next to take part in the study.

It was the parent who typed in the answers for the questions. They were instructed to read the questions aloud to the children and fill in their immediate response and not negotiate or try and convince them to answer the questions differently.

The questionnaire used is quite extensive with 69 different questions. It is an adaptation of the questionnaire used by Money Advice Service (MAS 2017) and the Money and Pension Service (MaPS 2018) in the UK used to uncover the financial capabilities of children in the UK. We have adjusted the questions to fit our framework leaving out some questions and altering response categories in others. This was done partly with respect to the differences in culture between the UK and the Nordics and partly as a result of user testing of survey with children and parents in the target audience.

Calculation of financial capability score

The financial capability scores have been calculated from the 7,380 responses (3,690 children/young people and 3,690 parents/caregivers).

The scoring is based on The Money Advice Service's financial capability survey but modified based on input from /KL.7 and YouGov.

Here is an example:

Aspect of Financial Capability	Question	Response Option	Scoring Instruction
Connection	You said that you have money of your own. Where do you get your money from?	CHOOSE ALL THAT APPLY 1. I get pocket money regularly (weekly or monthly) 2. I get money for my birthday, for Christmas, or other occasions 3. I get money when I see my grandparents, other family members, or friends of my family 4. I get money when we go on trips or for holiday 5. I get money for tasks that I do at home 6. I get money from my parents when I behave 7. I get money another way 8. Don't know	First, score each option: 1=6 2=2 3=2 4=2 5=4 6=0 7=2 8=0 Then, take the highest score you have assigned and use this as your final score.

In this example, response option number 1 will lead to a higher score, because the developmental psychology mentioned in previous sections shows that regular access to money is more effective for building financial capability than occasional gifts.

The scores for each of the three elements (Connection, Mindset and Ability) are then summed and indexed according to the maximum number of points that each element can get (40 for Connection, 40 for Mindset and 20 for Ability). The index numbers for each element are then summed to get the final financial capability score.

Descriptive statistics

		Denmark	Finland	Norway	Sweden
Children's Ages	5-6	20%	26%	20%	22%
	7-8	25%	24%	21%	23%
	9-10	27%	24%	31%	27%
	11-12	28%	26%	27%	28%
Children's Gender	Girl	50%	49%	51%	51%
	Boy	50%	51%	49%	49%
Urbanisation of Families	Capital area	20%	22%	16%	18%
	Larger town	28%	39%	32%	41%
	Suburban	42%	31%	33%	26%
	Rural	11%	9%	18%	15%
Number of Children in household	1	23%	29%	33%	22%
	2	47%	46%	46%	49%
	3	24%	16%	16%	20%
	4	5%	6%	4%	7%
	5	1%	3%	2%	3%
Parents education level	General and vocational primary and secondary education	33%	45%	32%	44%
	Short-medium cycle higher education	46%	37%	34%	35%
	Long-cycle higher education	21%	18%	34%	21%

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