

The Influence of Financial Knowledge, Financial Capability, Financial Stress and Help Seeking Activities on Financial Decision Making: Evidence from the Canadian Financial Capability Survey

Karen A. Duncan, University of Manitoba¹
Jamal Tavosi, University of Manitoba²

Introduction

Budgeting and paying down debt are two of four research priority areas identified in the Financial Consumer Agency of Canada's (FCAC) (2017) national financial literacy research plan. The objective of this research study is to examine the effects of financial knowledge, financial capability, financial stress, and help-seeking activities on debt management and budgeting behaviors.

Significance

The goal of FCAC's research plan is to encourage research that informs the national strategy for financial literacy. This research supports that aim by using nationally representative data to examine three relevant budgeting and debt management behaviors: having a household budget, carrying an unpaid balance on a credit card, and handling an unexpected \$500 expenditure. Following the literature, we model the three selected behaviors as depending upon objective financial knowledge, subjective financial knowledge, financial capability, financial stress, help-seeking activities, and demographic and socioeconomic characteristics.

Method

Data are from 6,277 respondents age 18 and older to Statistics Canada's 2014 Canadian Financial Capability Survey (Statistics Canada, 2014). Analysis was performed on the public use microdata file.

The dependent variables were having a household budget (1 = yes; 0 = no), carrying an unpaid balance on a credit card (1=yes; 0 = no), and using savings to handle an unexpected \$500 expenditure (1= yes; 0 = otherwise (e.g., borrowing, selling a financial asset)).

Because each of the three financial management variables of interest was measured in binary form, three separate logistic regression equations were used to explore the association between these dependent variables and the independent variables.

The key independent variables were measured as follows:

- Subjective financial knowledge: self-rated as very knowledgeable, knowledgeable, fairly knowledgeable, and not very knowledgeable (omitted category);
- Objective financial knowledge: correct number of responses to 14 questions;
- Financial capability: self-rated on the dimensions of keeping track of money, making ends meet, shopping around to get the best financial product, and staying informed on financial issues;
- Financial stress: number of financially stressful incidents experienced; and
- Financial help seeking: number of sources of financial information sought (e.g., retirement planning, insurance).

Control variables included the respondent's sex, age, marital status, immigrant status, education, employment status, income, household size, and region of residence.

Results

The logistic regression results show that, all else equal, financial capability is significant in all equations, increasing the odds that a respondent will have a household budget and will pay an unexpected \$500 bill with savings and decreasing the odds that a respondent will carry an unpaid

¹ Karen A. Duncan (karen.duncan@umanitoba.ca), Associate Professor, Department of Community Health Sciences

² Jamal Tavosi (jamal.tavosi@yahoo.com), Visiting International Student Researcher

balance on credit card. The results are consistent with prior research using the 2014 CFCS (Rothwell, Khan, & Cherney, 2016).

Seeking financial help was associated with increased odds of having a budget and decreased odds of carrying an unpaid balance on a credit card.

Lower levels of subjective financial knowledge were associated with carrying an unpaid balance on a credit card, but interestingly, respondents who said they were knowledgeable to some degree had significantly lower odds of having a budget compared to those who said they were not very knowledgeable.

Relevance

Financial capability appears to be more important than either subjective or objective financial knowledge, financial stress, help-seeking behaviors, or demographic and socioeconomic characteristics in predicting the budgeting and debt management behaviors of Canadians based on these results. We anticipate rerunning the analysis on the administrative data file in the Manitoba Research Data Centre when COVID-19 restrictions ease. Should these results hold in the final analysis, they would suggest policy and practice efforts should focus on building financial capability. Regardless, the relationships among financial capability, financial knowledge, financial stress and help-seeking activities deserve further analysis with Canadian data.

References

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