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## **#Buildbackbetter for personal financial wellbeing - insights into policy development priorities for a post Covid-19 environment**

### **Briefing Paper BP11/2020**

#### **New ways to understand the effects of COVID-19: introducing 'financial diaries' methodology**

**Dr Neil McHugh<sup>1</sup>, Dr Olga Biosca<sup>2</sup>, Enrico Bellazzecca<sup>1</sup>, Dr Gregory White<sup>2</sup>, Marta Mojarrieta<sup>2</sup>, Dr Ahalya Bala<sup>2</sup>, Professor Rachel Baker<sup>1</sup> and Professor Cam Donaldson<sup>1</sup>**

**<sup>1</sup>Yunus Centre for Social Business and Health, Glasgow Caledonian University**

**<sup>2</sup>Yunus Centre for Social Business and Health, GCU London**

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#### **Introduction**

COVID-19 and its associated interventions, such as physical distancing, isolation and furloughing, have had, and continue to have, an unprecedented effect on society. The pandemic is impacting different societal groups in different ways and raising new questions that need to be answered if we are to offer appropriate and meaningful support to those impacted. Low-income, vulnerable individuals, who have sophisticated but precarious financial lives, utilise coping mechanisms that rely on physical proximity and personal,

homophilic relationships, eg informal loans via family and friends, doorstep lending and cash transactions (Biosca et al., 2020). Given evidence that the effect of COVID-19 follows a socioeconomic gradient and that the business models of affordable credit providers, who aim to serve financially-vulnerable customers, are coming under pressure (Blundell et al., 2020; CarnegieUK, 2020), how are the financial lives and coping strategies of financially-excluded individuals being impacted? What types of support would make a difference to their lives?

COVID-19 has also impacted working lives. Over 9 million employees have been furloughed in the UK and, with the scheme due to end on 31<sup>st</sup> October, it is widely predicted that large-scale job losses will follow (BBC, 2020; HMRC, 2020). Record numbers of people are also working from home, with those in higher-paying jobs more likely to be doing so (ONS, 2020a, 2020b). How has COVID-19 impacted the disposable income of people with different income levels and job types? How will people coming off furlough manage their financial lives given uncertainty around job security? To answer these and other questions, we believe that innovative methodologies are required to complement more typical survey and interview-based approaches. One such methodology is 'financial diaries'.

In this briefing paper we introduce financial diaries methodology. This methodology was first applied in the UK through two related-projects: FinWell-Glasgow, funded by the Chief Scientist Office Scotland (2015-2017), and FinWell-London funded by Guy's and St. Thomas' Charity (2019-2020). These projects focused on understanding the financial lives of low-income individuals in the UK, whether these individuals perceived a link between their finances, income-based initiatives, such as microcredit<sup>1</sup>, and their health and wellbeing, and the mediating mechanisms that might facilitate these associations. The methodology can enable us to better understand the alternative economic spaces used by low-income, financially-excluded individuals and provide new ways of generating evidence of associations between finances, income-based initiatives and health and wellbeing (Biosca et al., 2020; McHugh et al., 2019b, 2017). The methodology also has the potential to generate unique and in-depth insights around how COVID-19 has impacted on, and continues to impact, the financial lives of individuals across society. We illustrate the potential of financial diaries methodology by drawing on findings from the FinWell-London project. (For further detail on our methods and the results of FinWell-Glasgow, see Biosca et al. (2020) and McHugh et al., (2019a, 2019c.)

## **Financial Diaries**

Financial diaries methodology has gained attention over the past decade, following the 'Portfolios of the Poor' (Collins et al., 2009) study in developing economics, and, its successful adaptation to the USA - the United States Financial Diaries (USFD) (Morduch and Schneider,

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<sup>1</sup> Initiatives that offer small loans at fair interest rates to low-income people financially excluded from mainstream lenders.

2017). This approach enables a detailed examination of individuals' or households' day-to-day financial management of assets, debts and cash flows. The term 'diaries' is generally used to reflect the high-frequency of data collection, with personal 'diaries' constructed through home or work-based interviews over regular intervals, e.g. weekly, bi-weekly or monthly time periods, for a defined period of time. Alongside the collection of individuals' financial transactions, qualitative 'event records' can be captured which provide insights on participants' lives, social networks, health and life events, and crises or cliff-edge moments. Quantitative corporate finance tools (balance sheets and cash flow statements) are used to analyse data from the financial diaries, which combined with the 'events records' can evidence rationales for diarists' financial behaviour (Collins et al., 2009). This intensive approach to data collection and systematic approach to analysis allows us to capture the detail of participants' complex money management strategies and to better understand the rationale for the strategies employed. These insights are different to those gained through, for example, yearly population surveys or in-depth interviews which tend not to be frequent enough to capture, in detail, the frequent (in)formal strategies individuals employ to cope with (un)expected changes to their income and expenditure (Biosca et al., 2020). This is particularly important for low-income individuals who are more likely to be financially excluded and use a variety of alternative lenders and informal financial strategies (Biosca et al., 2020; McHugh et al., 2019b).

### **FinWell-London Financial Diaries**

The overall aim of 'FinWell London' was to better understand how the financial lives of low-income individuals intersect with the management of long-term health conditions<sup>2</sup> in the London Boroughs of Lambeth and Southwark. We aimed to recruit a diverse group of users and non-users of fair microcredit who managed one or multiple long-term conditions within the study locales. Participants were met monthly over seven months. Financial and health baseline questionnaires were collected during the first meeting and then financial diaries were collected once a month for the next six months; with final financial and health questionnaires completed during the last meeting. Participants were asked to keep a record of all their income and expenditure transactions, as well as health and social-related events over the six-month period. To gather this information, the research team provided diarists with financial diary booklets (see Figure 1),<sup>3</sup> which include sections on income, expenditure, transaction amount, date of transaction, reason for payment, method of payment and significant events eg health or financial events, as well as more general life events potentially

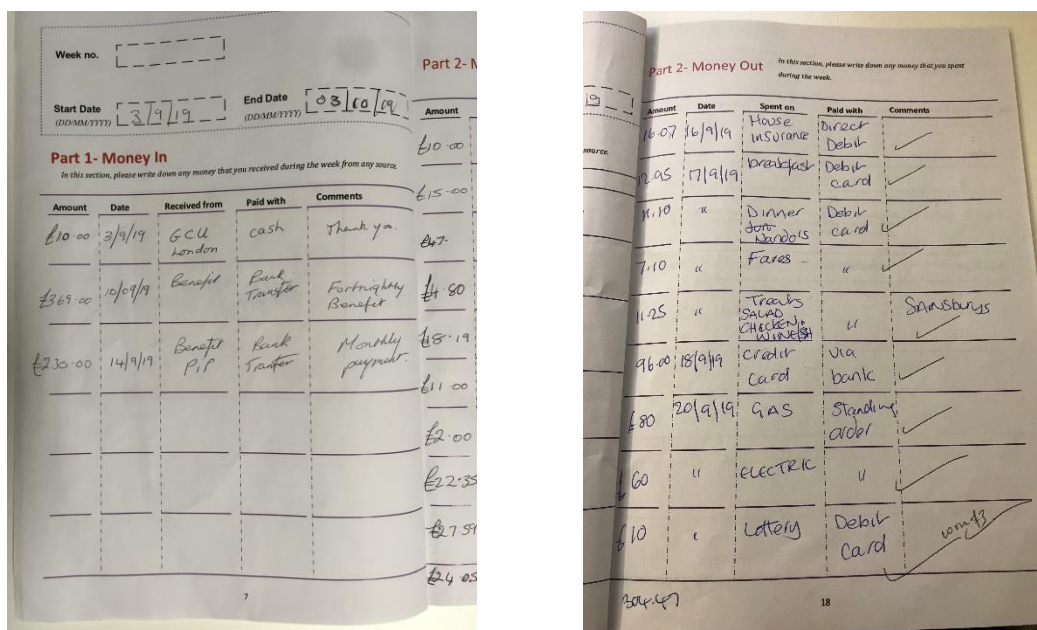
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<sup>2</sup> For the purposes of this study, we defined a long-term condition as follows: any chronic condition that a person is currently managing with medication, or, a medical problem that has troubled someone over a period of at least 3 months. The report 'From One to Many' (Guy's & St. Thomas' Charity, 2018) – guided the definition of a long-term health condition.

<sup>3</sup> These financial diary booklets were adapted from the work of Fatma Ibrahim, a PhD Candidate at the Yunus Centre for Social Business and Health, who developed them as part of her ongoing research, which focuses on the financial lives of refugee women in Glasgow. See: <https://www.gcu.ac.uk/yunuscentre/meettheteam/phdstudents/fatmaibrahim/>.

linked to diarists' financial behaviour. Participants were also asked to retain and share receipts and provide bank statements, wherever possible, to enhance the accuracy of the diary data. During the monthly meetings, these data were shared and discussed with a research team member, and used as prompts to discuss 'events' (health, financial, social) that had impacted participants' lives and finances. This enables us to better understand changes in diarists' income and expenditure, how they manage their financial lives and the rationales that inform their strategies. For example, we can view the ways in which diarists cope (or do not cope) with financial and non-financial emergencies, including meeting rent payments or loan repayments, replacing essential household items and responding to the withdrawal or reduction of welfare benefits.

**Figure 1 Financial diary examples**



In FinWell-London, we initially recruited 29 individuals as financial diarists of whom 21 completed 4 or more diaries and 17 completed all 6 diaries (for more detail on our sampling approach and sample see Bala et al. (2020) and Biosca et al. (forthcoming). This resulted in 131 interviews, undertaken in a phased way between June 2019 and March 2020, and the recording of almost 9,000 transactions. Analysis was based on the data of 21 diarists who completed 4 or more diaries only. Data were analysed using a combination of quantitative and qualitative methods. Corporate financial tools (i.e. monthly budgets and balances) were used to explore diarists' cash flows and assets and liabilities. These quantitative findings were supported with the analysis of field notes and participants' 'event records'.

Diarists' perceived a link between their financial lives and health and our analysis of diarists' lived experiences indicates that certain social determinants of health were of particular importance for this group. For example, income, employment and (the quality of) housing

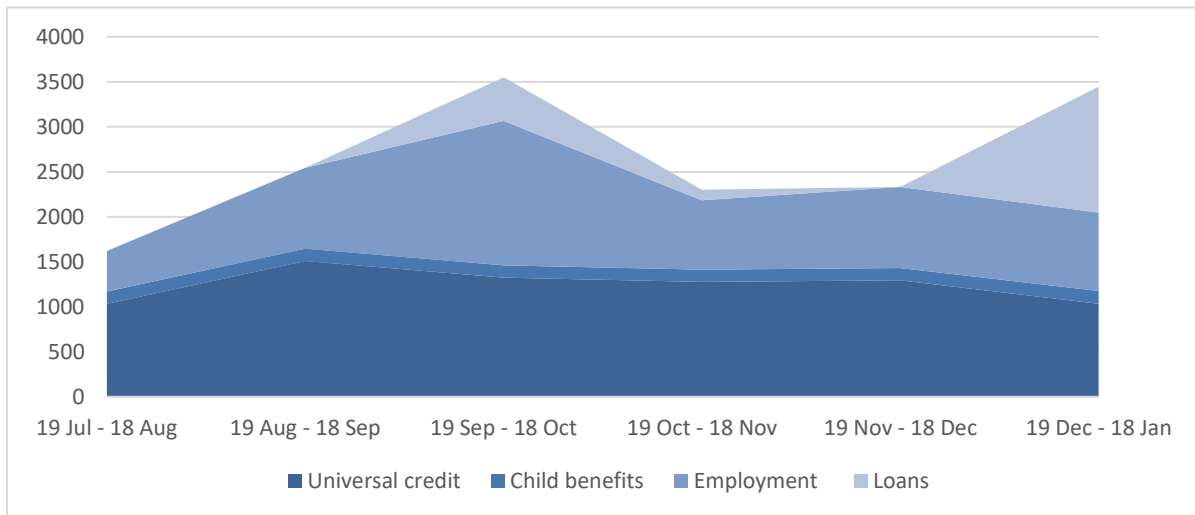
seemed to connect directly with the finances and health of the group. In the life stories of diarists, access to (a) support networks, (b) health and social care, and (c) other essential services, such as childcare and legal, appeared to be mediating mechanisms. The longitudinal nature of financial diaries and the capturing of 'event records' also enabled us to observe how 'cliff-edge moments', sudden events that led to multiple, immediate and serious problems, impacted the life course of the diarist and how diarists' responded to these. These events included, for example, losing their job, changes to their benefit payments and getting divorced. Diarists gave complex and sophisticated accounts of how they managed their finance and their health conditions. The case of Luisa and Tony illustrates how employment (or lack thereof) acted as one determinant of the relationship between finances and health (see Biosca et al. (forthcoming) for a full summary of FinWell-London results), pseudonyms are used to maintain diarists' anonymity.

### ***Case Study - Living on the edge of a cliff: Luisa and Tony***

Luisa is a 28-year-old mother of two young children (4 and 1) who lives with her husband Tony. The couple relocated from Portugal and have been living in the UK for the last 6 years. Luisa suffers from depression and her mental health deteriorated so much last year that she had to stop working. She used to work as a cleaner. Work played an important part in her social life and on the household's finances. When we first meet her, she is feeling better and has started looking for a new job. However, the family has no help with childcare and the one-year-old only has 15-hours free nursery a week. Luisa is constrained: it is difficult to combine childcare responsibilities with low-pay work.

During the second month in the study, the family needs money and Luisa manages to find an informal cleaning job. It is little time and money but she is afraid that if she gets a more formal job the family will lose entitlement to universal credit, which is the most reliable income they have at the moment. She has to quit the job in month 3 as her anxiety was worsening because she was not yet fit to work. The household income (Figure 2) is not only low but also variable from month-to-month. Tony works on a zero-hour contract, and his salary does not always cover for essential expenses. At times when they are strapped for cash, they mostly rely on loans and gifts from Tony's mum and Luisa's aunty. Sometimes they are not in a position to help either, and then Luisa and Tony have to ask others such as Luisa's boss. For example, the household budget on month 6 shows a £1,400 loan that the family got from Luisa's boss. They urgently needed to rent a car whilst visiting their family in Portugal and they did not have enough cash. The loan was repaid 4 days later once they received a delayed Universal Credit payment. These informal debts are easier to renegotiate and some, particularly with Tony's mum, never have to be repaid.

**Figure 2 Luisa's household monthly income by type (in £)**



However, the family spends around £400 per month paying loans and arrears which are substantially less flexible. The first one, with Brighthouse, was used to buy much needed house appliances over a year ago. The second one is with the council. When Luisa stopped working, they fell behind in their council tax payments and now they pay arrears twice every month. The third debt is with a mobile network provider. Finally, they have an overdraft with a commercial bank.

When Luisa tells us about the connection between her depression and her finances, she talks about money making her stressed, noting that she has developed a rash on her skin. The rash comes and goes throughout the six months of the study, depending on her stress levels and her income. Luisa is still trying hard to move on, she has sought help from community groups in the Borough and is getting psychotherapy: *“Otherwise I will fall again in the same circle as before”*.

## Reflections

‘Financial diaries’ methodology is time and resource intensive. A lot is asked of participants, to lay-bare their financial lives with researchers over a prolonged period of time. The quality of the data collected is also reliant on having skilled and sensitive researchers who can build rapport with participants. However, the pay-off is that unparalleled insight is gained into the complex and volatile financial lives’, and the sophisticated money management strategies, of diarists.

Data collection for FinWell-London finished during the month in which COVID-19 was officially declared a pandemic. While we do not have ‘lockdown’ data, our diarists are likely to be among the hardest hit by COVID-19 and the associated social and economic measures due to the fragility of many aspects of their lives. New financial diary studies have the ability to provide unique insights into the impact of COVID-19 as the methodology enables longitudinal,

in-depth data to be collected on how individuals cope with (un)expected changes to their income and expenditure in a way that cannot be captured through traditional surveys. We believe that new financial diary studies could help us to better understand individuals' lived experience of specific financial issues during, and 'after', COVID-19, the strategies individuals are using to ameliorate financial challenges and, in combination with the collection of health measures, offer the potential to explore the link between finances and health. In turn, such insights can inform the design of initiatives to support individuals and groups across society.

**Dr Neil McHugh**

[neil.mchugh@gcu.ac.uk](mailto:neil.mchugh@gcu.ac.uk)

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### ***FinWell-Glasgow***

*Project Title: Fair credit, health and well-being: eliciting the perspectives of low-income individuals*

*Project Team: Professor Cam Donaldson<sup>1</sup> (Project Lead), Dr Olga Biosca<sup>2</sup>, Professor Rachel Baker<sup>1</sup>, Dr Suzanne Moffatt<sup>3</sup>, Professor Paul Mosley<sup>4</sup>, Dr Pamela Lenton<sup>4</sup>, Dr Neil McHugh<sup>1</sup>, Fatma Ibrahim<sup>1</sup>, Tim Laxton<sup>1</sup>*

*Project Funder: Chief Scientist Office Scotland*

*Project Length: 2015-2017*

*Project Reference Number: CZH/4/1095*

*Affiliations: <sup>1</sup>Yunus Centre for Social Business and Health, Glasgow Caledonian University, <sup>2</sup>Yunus Centre for Social Business and Health, GCU London, <sup>3</sup>Institute of Health & Society, Newcastle University, <sup>4</sup>Department of Economics, University of Sheffield*



**FinWell-London**

*Project Title: Managing finances and multiple long-term conditions: eliciting the perspectives of low-income individuals*

*Project team: Dr Olga Biosca<sup>2</sup> (Project Lead), Dr Neil McHugh<sup>1</sup>, Professor Cam Donaldson<sup>1</sup>, Professor Rachel Baker<sup>1</sup>, Professor Antony Morgan<sup>2</sup>, Dr Gregory White<sup>2</sup>, Marta Mojarrieta<sup>2</sup>, Dr Ahalya Bala<sup>2</sup>, Enrico Bellazzecca<sup>1</sup>*

*Project Funder: Guy's and St. Thomas Charity*

*Project Length: 2019-2020*

*Project Reference Number: EIC181201*

*Affiliations: <sup>1</sup>Yunus Centre for Social Business and Health, Glasgow Caledonian University,*

*<sup>2</sup>Yunus Centre for Social Business and Health, GCU London*

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