

Financial Capability in the UK:

Establishing a Baseline



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FSA's Statutory objectives

- Market confidence
- Public awareness: Promoting public understanding of the financial system
- The protection of consumers
- The reduction of financial crime

Strategic aims

- Promoting efficient, orderly & fair markets
- Helping retail consumers get a fair deal
- Improving our business capability and effectiveness

Retail strategy

- Capable and confident consumers
- Clear, simple and understandable information from the industry and the FSA, available for, and used by, consumers
- Responsible firms that treat their customers fairly and are soundly managed and adequately capitalised
- Risk-based regulation, through firm-specific and thematic supervision and policy

Benefits from better financial capability

Who?

- Consumers themselves
- Government
- Advisory services
- Financial services industry
- Regulator

How?

- Planning ahead
- Getting help and advice
- Products meeting needs
- Better debt management

Markets

- More willing and better informed consumers
- Lower distribution costs

National Strategy for Financial Capability

- Series of seven work streams initially
- Pilot projects undertaken & evaluated
- Identified the need for a 'baseline' survey
- Survey results help refocus priorities on:
 - Schools
 - Young Adults
 - Workplace
 - Consumer Communications
 - Online tools
 - New parents
 - Money advice

The financial capability survey: background

- Important to be able to *measure* financial capability
- An extremely rigorous large-scale study
 - over 5,300 in-depth interviews in total
 - representative of the UK population
 - sufficient sub-samples to enable statistically valid regional analysis
- Designed for future repetition

The financial capability survey

Development phase:

- **Identify components of capability with input from consumers and experts**
- **Design a questionnaire to capture these on a large scale**
- **Design a measurement system taking into account circumstances and ‘need to know’**

Interpretation & concepts

- Financial capability is a relative concept
- Can only judge individuals in context of their own circumstances
- But we can make general observations about the population overall
- Five separate components:
 - Making ends meet
 - Keeping track of your finances
 - Planning ahead
 - Choosing financial products
 - Staying informed about financial matters

Four themes emerged:

- Many people are failing to plan ahead sufficiently such as planning for retirement or simply having some rainy day savings
- Over-indebtedness is very severe for some, but not widespread, yet in view of lack of planning, people who are now just coping will be vulnerable to any economic downturn
- Most people are not choosing products carefully and many are unaware of risks they take on
- Under 40s typically much less capable, but carry much greater personal responsibility than their parents' generation

Summary results:

Making ends meet

- Generally good, though a small but significant group scores way below average

Keeping track

- Fairly good overall, less people with such high scores as making ends meet

Planning ahead

- Poor overall, though considerable diversity, not always income-constrained

Choosing products

- Generally poor, lower scores predominate

Staying informed

- Generally poor, lower scores predominate

Making ends meet (1)

Statistical indicators of better capability

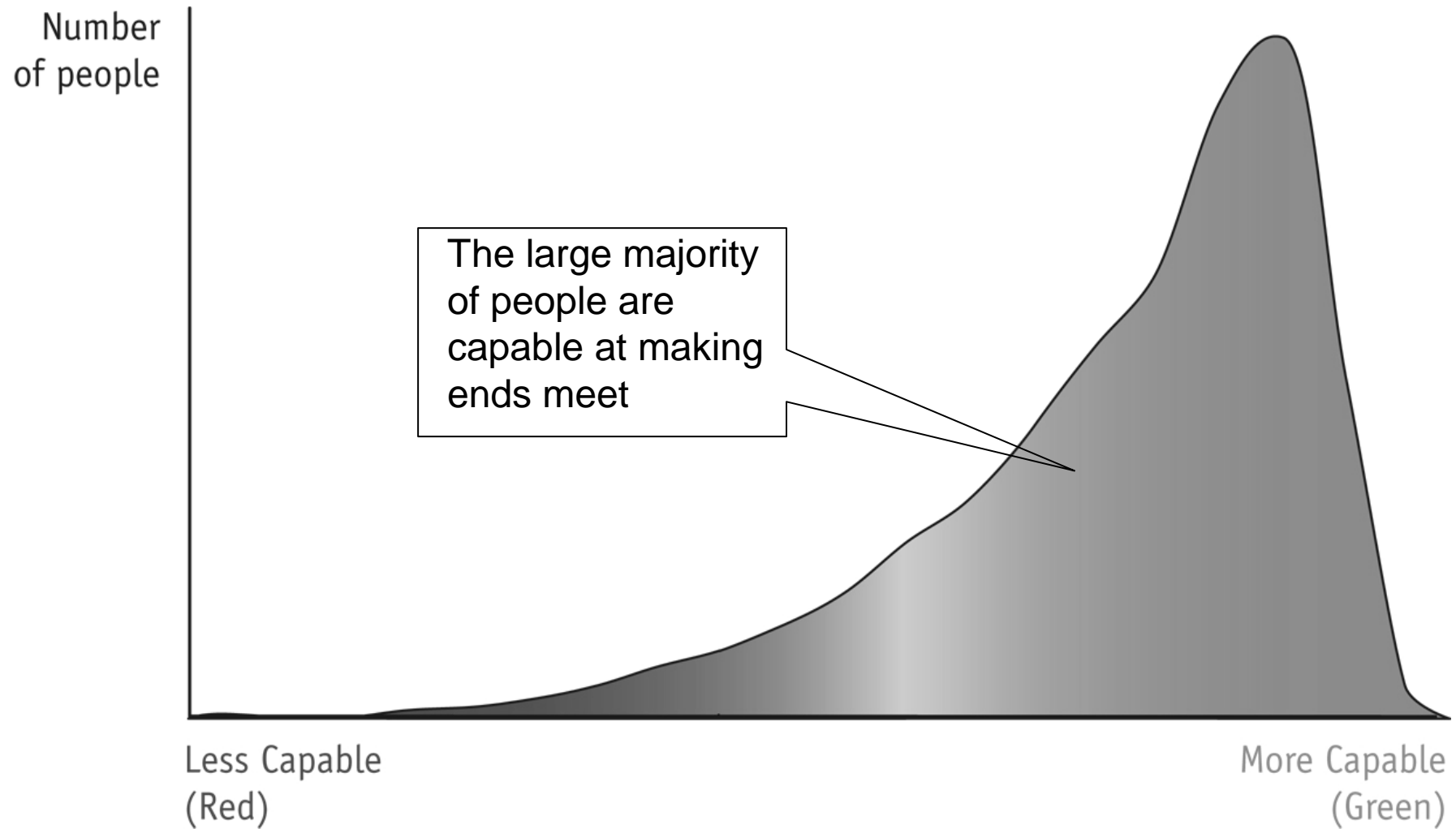
- Keeps up with their financial commitments without any difficulty and never struggles
- Agrees that they more of a saver than a spender preferring to save up to buy something rather than use credit
- Never runs out of money at the end of the week/month
- Has not been in financial difficulties in the last five years

Making ends meet (2)

Key findings

- How well keeping up with commitments
 - 65% no difficulty
 - 26% keep up but sometimes struggle
 - 9% constantly struggle or worse (3% falling behind, sometimes severely)
- Making ends meet
 - 31% sometimes run out of money before the end of the week/month (not just low income groups)
 - 9% always run out
 - 21% revolve a credit card balance
- Attitudes to debt
 - 61% strongly agreed they would rather cut back on spending than accumulate debt on a credit card, 15% disagreed

Making ends meet (3)



Keeping track(1)

Statistical indicators of better capability

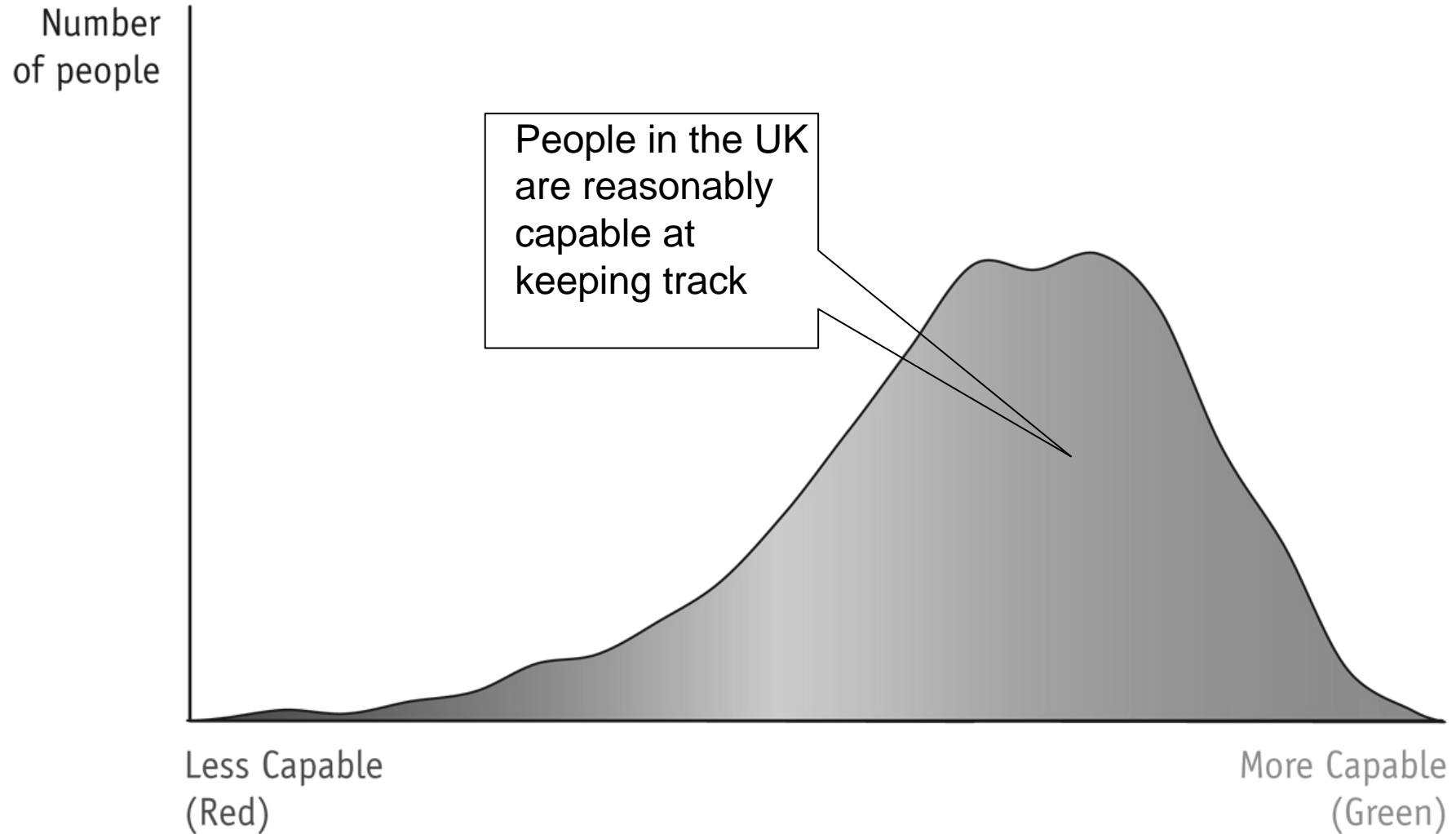
- Frequently checks the amount of money in their current account (or in-hand, for cash budgeters)
- Checks receipts against their bank statements as opposed to simply glancing over the entries or just checking the final balance
- Knows the amount of money in their current account balance (or in-hand, for cash budgeters) to an appropriate level in line with their income
- Budgets to ensure that they have sufficient funds available to cover uneven expenditure (eg utility bills, TV licence)

Keeping track (2)

Key findings

- Monitoring withdrawals
 - 43% keep no record of withdrawals or day to day cash spending, 42% keep ATM slips
- Knowing bank balance
 - 7% have no idea, 21% know within a pound or two (especially teens and the retired)
- Checking bank balance
 - 38% always check (41% women 35% men)
- Reviewing bank statements
 - 6% ignore altogether, 42% keep receipts and check them off
- Preparing for upcoming uneven expenditure
 - 37% put money aside, 10% make no provision, 40% say they have enough money so no need to do so

Keeping track (3)



Planning ahead (1)

Statistical indicators of better capability

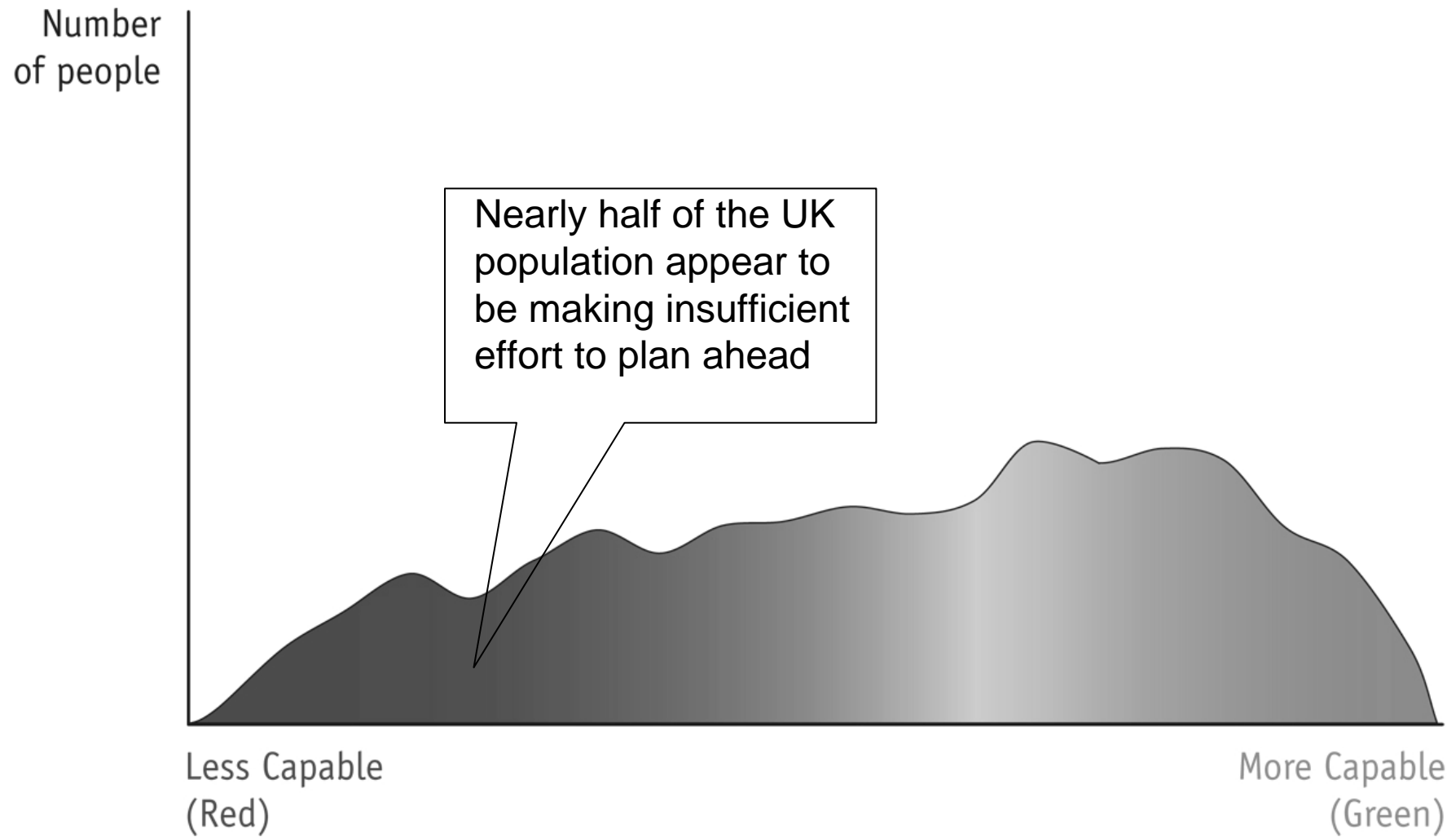
- Has made sufficient provision for an unexpected major expense or significant drop in income
- Would be able to make ends meet for twelve months or more if income dropped unexpectedly
- Holds some general insurance
- Has made provision for their retirement
- Takes the attitude, 'make sure I have money saved for a rainy day' and is willing to consider trade-off in current standard of living in order to plan for retirement

Planning ahead (2)

Key findings

- Providing for retirement
 - 81% said state pension would not provide standard of living they hope for in retirement, but 37% of them have no additional provision
- Attitudes vs. behaviours
 - 75% say they always make sure they have money saved for a rainy day, but most have not. Nearly half have no savings at all.
- Financial setbacks
 - 28% had a large unexpected drop in income (such as from divorce, job loss) in last 3 years
 - 39% said they could manage for 12 months plus, but no actual provision by 45% of them
 - Only 66% have home contents insurance
- Prospects for the retired
 - 21% of people already retired have an income that gives them a lower standard of living than they hoped for

Planning ahead (3)



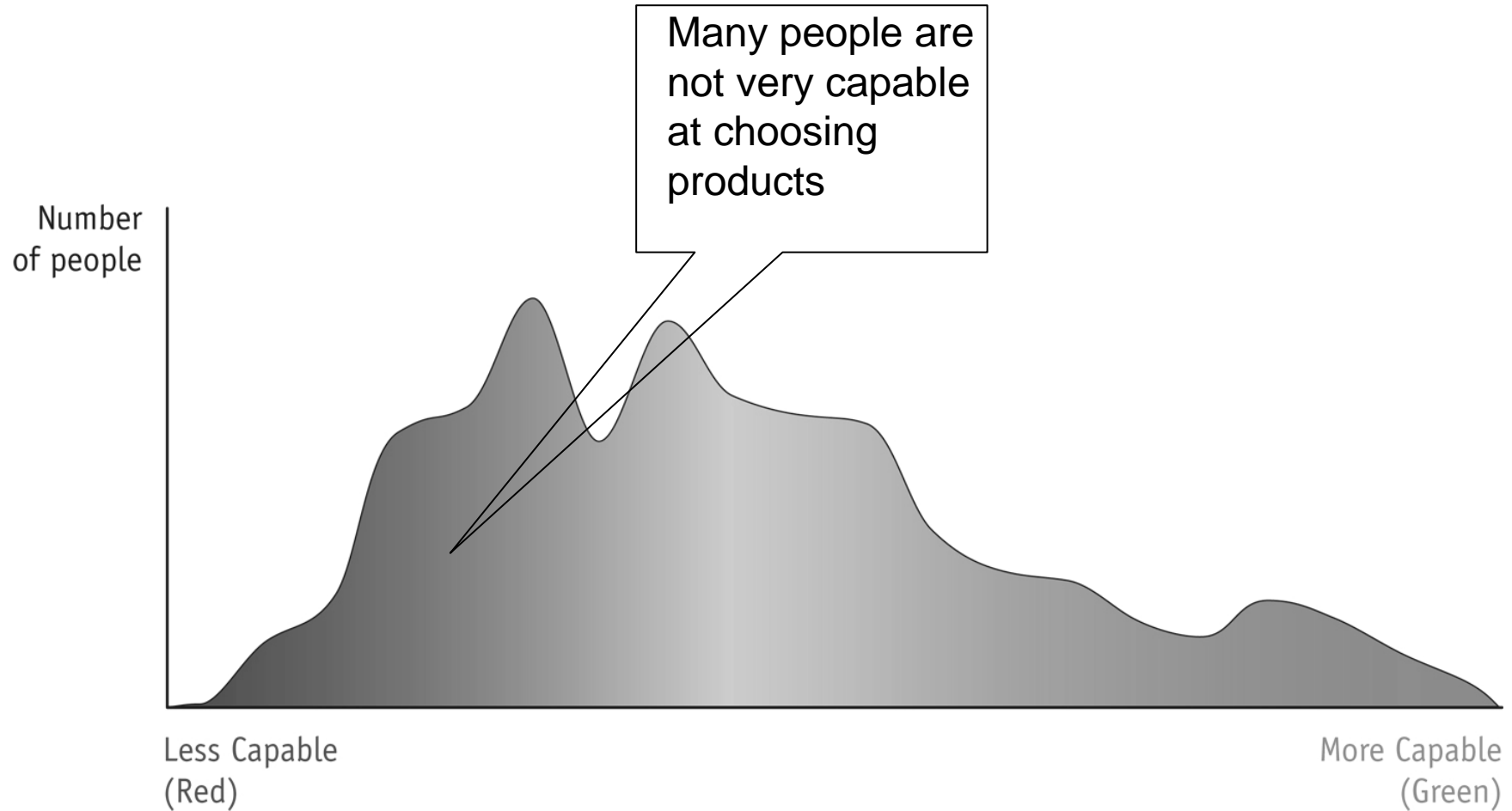
Statistical indicators of better capability

- Seeks advice from an appropriate professional adviser before buying financial products or actively shops around
- Doesn't just rely on the information that accompanies the product to inform their purchasing decision
- Compares products from multiple providers either personally or through an appropriate professional adviser
- Compares products on features and price rather than making a choice based on brand image

Key findings

- Understanding and mitigating risk
 - 40% of equity ISA holders didn't know they had market risk exposure
 - 7% have life cover but no dependents
- Market participation
 - 26% made no purchase in last 5 years
- Purchasing advice
 - Majority do not seek advice, 42% rely on product information/ friends & family/ sales staff
- Price insensitivity
 - Majority do not choose savings accounts or credit cards based on interest rate
- Inertia
 - 61% have car insurance, only 48% of those people took out different policies in the last 5 years
- Credit
 - 56% have credit cards, 21% revolve balances, 14% have personal loans

Choosing financial products (3)



Staying informed (1)

Statistical indicators of better capability

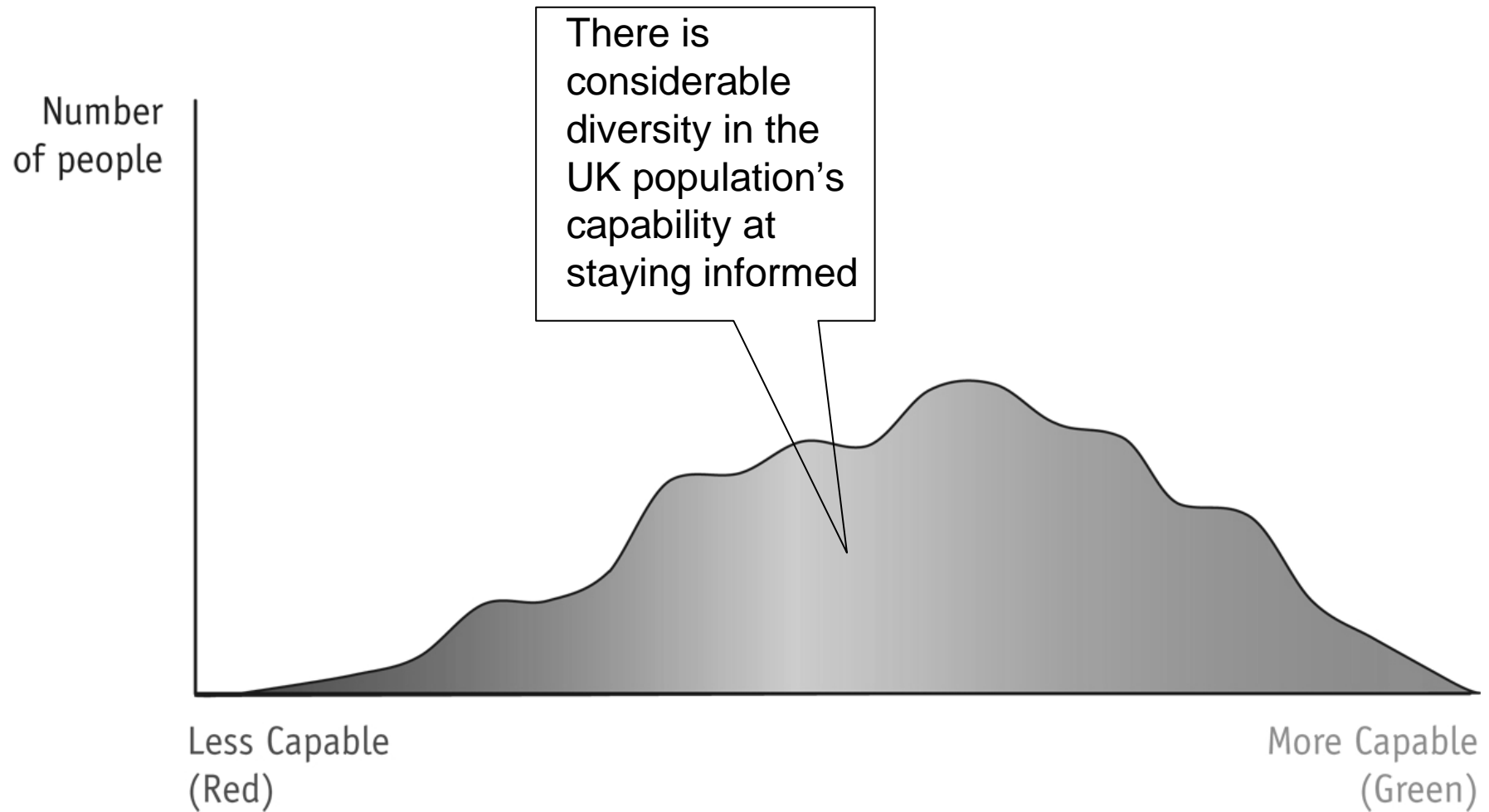
- Monitors many financial indicators such as changes in the housing market, stock market and interest rates
- Checks these financial indicators frequently
- Has a good level of applied financial literacy
- Thinks it is reasonably important to keep up to date with financial matters

Staying informed (2)

Key findings

- Attitudes
 - 72% say important to keep up with financial matters, but 12% of these do not in practice
- Financial indicators
 - 78% keep up with at least one
 - 46% watch interest rates, 11% watch financial best buys
- Sources of information
 - 41% newspapers generally (19% money pages)
 - 30% radio and TV generally (7% specialist programmes)
- Money quiz
 - Average score 4.9 out of 6 on applied financial literacy questions
 - 90% got a percentage question correct, 75% got a graph question correct

Staying informed (3)

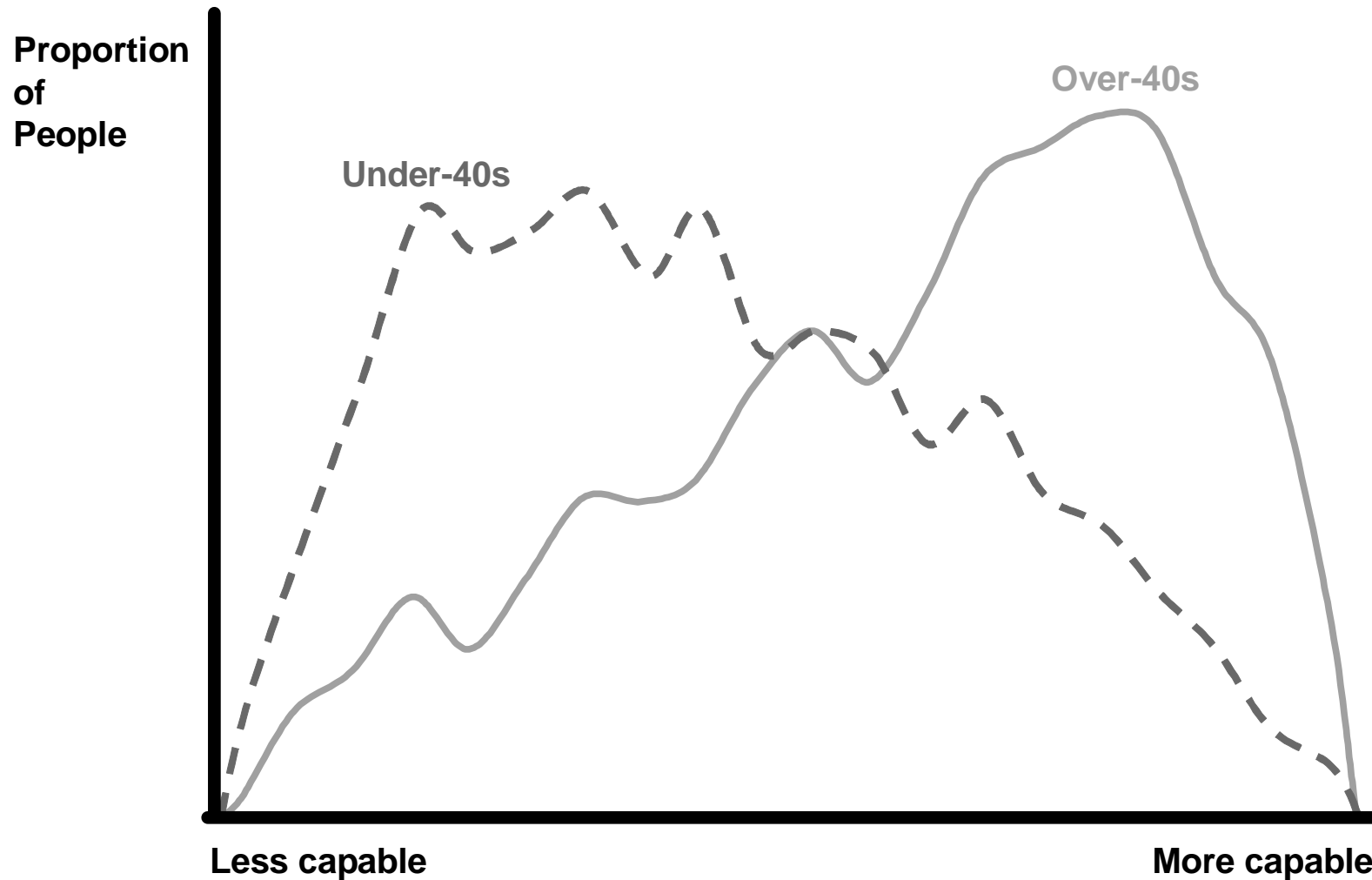


Correlations

- **Making ends meet:**
 - Strongly correlated with **age**
 - Weakly correlated with income
- **Keeping track**
 - No strong demographic correlations
 - Gender: women do better than men
- **Planning ahead**
 - Strongly correlated with **age** and **education**
 - Gender: men do better than women
- **Choosing products**
 - Strongly correlated with **product experience**
- **Staying informed**
 - Strongly correlated with **income** and **education**
 - Gender: men do much better than women

Age correlation example: planning ahead

Comparison of capability distribution
for over- and under-40s



The age divide – attitudes

	18-30	50 plus
I am impulsive and tend to buy things even when I can't really afford them	37%	10%
I am more of a saver than a spender	41%	71%
I find it more satisfying to spend money than to save it for the long term	55%	37%
I've got a clear idea of the sorts of financial products I need without consulting a financial adviser	52%	71%
I tend to live for today and let tomorrow take care of itself	52%	31%

The age divide – behaviours and outcomes

	18-30	50 plus
Willing to take no risk at all when investing	35%	50%
Been in financial difficulties in last 5 years	21%	7%
Constantly overdrawn	13%	3%
Keeping up with bills and credit commitments without any difficulty	55%	78%

Implications for the Strategy

- The Survey confirms a clear need for intervention on financial capability
- Identifies which groups are especially vulnerable and most in need of help, particularly the young
- Shows potential problems if economic condition became less benign
- Our strategy is well aligned with this given that two of the seven priorities are schools and young adults
- Establishes a baseline against which we can measure future progress

Regulatory implications

- Active product purchase behaviour
 - Mortgage & investment purchases (fully representative)
 - Other products: payment/ income protection, credit cards, unsecured credit, general insurance, savings accounts, current accounts
- Savings and debt relationships
- Disclosure regimes
- Reliance on advice, but not discerning
- Complaints, disputes and getting help
- Consumer risk appetite & understanding

Links to publications and contact details

Publications

www.fsa.gov.uk ► **FSA Library** ► **Other publications**

► **Financial capability publications**

Various, including Establishing a Baseline (March 2006)

► **Consumer research publications 2005/6**

CRPR 37 - Measuring financial capability: an exploratory study

CRPR 47 – The main research report

CRPR 47a – Survey methodology report

CRPR 47b – The full questionnaire

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Discussion