Measuring Financial Capability
The Approach in Ireland

22 October 2008
OECD Conference - Bali

Presenter: John Pyne
Overview

- Introduction to the Financial Regulator (Ireland);
- Why we wanted to evaluate the Financial Capability of Irish Consumers;
- What we have done to date; and
- Where we go from here.
Introduction to Financial Regulator (Ireland)

We are a separate entity within the Central Bank and Financial Services Authority of Ireland

Our Role:

is to help consumers make informed decisions on their financial affairs in a safe and fair market, and to foster sound and solvent financial institutions, which gives depositors, policy-holders and other consumers of financial products confidence that their deposits, investments and insurance policies are safe.
What is Financial Capability?

- Financial capability is a broad measure of the knowledge, skills, attitudes and behaviours necessary to manage personal finances and to choose and make appropriate use of financial products.

- It includes knowledge and understanding of financial products, terms and concepts and basic skills like the ability to budget.

- Attitudes are also important, such as the willingness to spend the time to keep track of finances.
Why Measure Financial Capability?

We need to develop a greater understanding of consumers’ financial behaviour and attitudes and the processes by which they make financial decisions:

a) In order to be able to help consumers in Ireland to make more informed decisions, and

b) To help ensure that our consumer protection policies are attuned to consumers’ needs.
And more specifically:


- Chaired by the Consumer Director, members include representatives from Government, industry, voluntary groups, the education system and other state bodies.

- Role of the Group is to foster and co-ordinate financial education in Ireland based on best international practice.

- Initial report of the Steering Group due before the end of 2008

- In order to persuade our stakeholders, we needed to be able present them with reliable evidence of the financial capability of Irish consumers
Going back to our definition of Financial Capability

We suggest that a financially capable citizen should be able to:

- manage their money and live within their means;
- plan for the medium and long-term;
- understand the risks and benefits of credit;
- know and understand the broad groupings of financial products;
- know where to get appropriate information about financial products and services and about their rights;
- make informed choices at appropriate times in their lives; and
- own and operate effectively a number of key financial products.
What we do not mean by financial capability:

- Consumers need to become ‘financial experts’;
- That financial services firms have no responsibility;
- That there will be no gap between what a financial services firm knows and what the consumer knows;
- That consumers will be able to predict and manage risk in all instances;
- A substitute for effective regulation and redress.
Why do people need to be ‘financially capable’?

Economic and market factors
- A market must have financially capable consumers for it to function effectively
- Higher levels of ownership of financial products
- More risk being transferred to individuals – low interest rates, inflation, pensions
- Increasing range and complexity of financial products
- Poor financial decisions can have long-term effects

Social and cultural factors
- Social inclusion and participation in society
- Increasing longevity

Personal factors
- Self-esteem and self-reliance
- Personal responsibility – up to a point!
Ireland’s Financial Capability Study – Preparatory work:

- Review of international best practice
- Review of previous related studies
- FSA allowed us to “localise” their questionnaire
  - Qualitative testing
- Focus groups
- Survey interviews to pilot test questionnaire
Ireland’s Financial Capability Study – Questionnaire

- Four main domains
  - Day-to-day money management
  - Planning ahead
  - Choosing and using financial products
  - Getting help, and staying informed

- Emphasis on actual behaviour in last five years
So we…

- Appointed independent market research company to conduct research.
- The questionnaire was based on architecture developed by the Financial Services Authority in the UK.
- Fieldworkers used laptops - computer-assisted personal interviewing (CAPI).
- Over 1,500 consumers interviewed – representative sample of the population.
- Average interview length 50 minutes.
Where are we now?

- The fieldwork is now completed, and we can publish some data that will give insights into the financial capability of Irish consumers.
  - Contains some key statistics;
  - Creates an appetite among stakeholders and in the media for the final product.

- A final report, using more detailed statistical analysis will be published around the end of 2008.
1. Managing money, keeping track of spending and living within their means

37.1 per cent of consumers have some degree of difficulty keeping up with bills and credit commitments.

13 per cent have found themselves in financial difficulties within the last five years.

Product ownership
- 17 per cent of people don’t have a current account;
- over 61 per cent don’t have a credit card;
- 43 per cent of the adult population has an account with a credit union; and
- 40 per cent have some level of life insurance cover.
Confidence about rights, and how to complain

<table>
<thead>
<tr>
<th>I know exactly what to do to make a complaint</th>
<th>Financial Services</th>
<th>Non-financial goods &amp; services</th>
</tr>
</thead>
<tbody>
<tr>
<td>I have a good idea of what to do</td>
<td>30 %</td>
<td>43 %</td>
</tr>
<tr>
<td>I have some idea of what to do</td>
<td>26 %</td>
<td>17 %</td>
</tr>
<tr>
<td>I have no idea of what to do</td>
<td>27 %</td>
<td>9 %</td>
</tr>
<tr>
<td>Don’t know</td>
<td>1 %</td>
<td>-</td>
</tr>
</tbody>
</table>
2. Planning ahead and making provision for future events including retirement

Over the past three years:

- 25 per cent of respondents (or their partners) have experienced a large and unexpected drop in income (due to, for example, a drop in wages/income or benefits, separation expenses, etc.).

- 16 per cent have experienced a major expense (equivalent to the whole income for a month) that was not expected.
Planning for retirement:

- Over half of the respondents clearly had no idea of the current value of the minimum State pension that an individual could receive.

- When told what that pension amount is, 66 per cent said that this would not give them (and their partner) the standard of living they would hope for in retirement.
3. Assessing products and making choices between similar financial offerings

25 per cent of the population have received professional advice in relation to planning their finances in the past five years.

Delving a little deeper into this, we find that mortgages and pensions are the two issues on which the greatest number of people have received professional advice followed by life insurance.
# Attitudes to financial advice

Please tell me how strongly you agree or disagree with the statement:

<table>
<thead>
<tr>
<th>Statement</th>
<th>Agree Strongly</th>
<th>Tend to Agree</th>
<th>Tend to disagree</th>
<th>Disagree strongly</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>“I've got a clear idea of the sorts of financial products that I need without consulting a financial adviser”.</td>
<td>22%</td>
<td>41%</td>
<td>23%</td>
<td>11%</td>
<td>3%</td>
</tr>
<tr>
<td>“I would trust financial advisers and accept what they recommend”.</td>
<td>7%</td>
<td>46%</td>
<td>28%</td>
<td>13%</td>
<td>5%</td>
</tr>
</tbody>
</table>
Attitudes to risk

Consumers were asked how much risk they were prepared to take that they might lose some of the money they put into a savings account or investment.

<table>
<thead>
<tr>
<th>Category</th>
<th>Total</th>
<th>18-20</th>
<th>21-24</th>
<th>25-34</th>
<th>35-44</th>
<th>45-54</th>
<th>55-60</th>
<th>61-64</th>
<th>65-74</th>
<th>75+</th>
</tr>
</thead>
<tbody>
<tr>
<td>No risk at all</td>
<td>44</td>
<td>25</td>
<td>41</td>
<td>40</td>
<td>35</td>
<td>47</td>
<td>57</td>
<td>47</td>
<td>57</td>
<td>74</td>
</tr>
<tr>
<td>Low risk</td>
<td>27</td>
<td>25</td>
<td>25</td>
<td>27</td>
<td>32</td>
<td>27</td>
<td>23</td>
<td>33</td>
<td>27</td>
<td>18</td>
</tr>
<tr>
<td>Low to moderate risk</td>
<td>12</td>
<td>16</td>
<td>13</td>
<td>16</td>
<td>16</td>
<td>10</td>
<td>7</td>
<td>11</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>Moderate Risk</td>
<td>10</td>
<td>18</td>
<td>12</td>
<td>9</td>
<td>12</td>
<td>12</td>
<td>9</td>
<td>5</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Moderate to high risk</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>High risk</td>
<td>1</td>
<td>4</td>
<td>-</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Don’t know</td>
<td>3</td>
<td>11</td>
<td>5</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>5</td>
<td>4</td>
</tr>
</tbody>
</table>
Understanding of risk

- 36 per cent understood that the value of a **tracker bond** would be directly affected by stock market performance;

- 21 per cent understood that the value of an **endowment policy** would be directly affected by stock market performance;

- 17 per cent understood that the value of a **unit trust** would be directly affected by stock market performance.

- 7 per cent thought that the value of a **savings/deposit** account could be directly affected by stock market performance.
4. Staying informed about financial products and services

62 per cent of respondents thought it was very important or quite important to keep up to date with what is happening with financial markets generally.

The issues that consumers were most likely to personally keep an eye on included:

- the housing market (39 per cent),
- interest rates (37 per cent),
- inflation (35 per cent), and
- taxation and State benefits (both 30 per cent).
Sources of information

The most popular sources of information were:

1. newspapers (but not the financial pages) at 49 per cent; and

2. television (other than specialist personal finance programs) at 44 per cent.

Across the whole population just 10 per cent use the internet to stay informed, though this is higher for consumers in their twenties and thirties.
Next Steps?

- Economic Analysis and Research Department of the Central Bank and Financial Services Authority of Ireland are currently analysing the dataset using factor and cluster analysis.

- This will yield a series of Financial Capability scores that can be compared to other reports and can be tracked over time.

- The Financial Regulator intends to publish its final report on financial capability before the end of 2008.
And in the Future?

Plan to repeat the exercise every 5 years or so, in order to build a substantial and useful longitudinal study.
Thank you