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MISUNDERSTANDING FINANCIAL T&Cs COST UK ADULTS £21 BILLION LAST YEAR

- ***Financial jargon cost the average UK adult £428 in the past year***
- ***84% of UK adults do not read the full terms and conditions when taking out financial products***
- ***Half of those who have taken out a payday loan do not understand the meaning of a 'loan' while 68% cannot identify the meaning of 'interest'***

Misunderstanding financial terms and conditions – or simply not reading them at all – is hitting UK adults in the pocket according to new data from the Money Advice Service. The study of 3,000 UK adults demonstrated that confusion around financial terms and conditions in the last 12 months cost each adult £428. Nationally, this equates to £21 billion*.

The vast majority of UK adults (84%) admit that they do not read the full terms and conditions when they take out financial products. This is compounded by many people misunderstanding key financial terms. The meaning of 'interest' was misunderstood by 32% of respondents, and the meaning of a 'budget' was not correctly identified by an additional 32%. 'Compound interest' was the most commonly misunderstood term with 46% unable to correctly identify its meaning, followed closely by 'annuity' (44%).

Short but not simple

Common abbreviations used by the financial industry also led to confusion, with many people unsure what the key acronyms mean:

- 61% could not identify what EAR stands for (Equivalent Annual Rate)
- 30% could not identify what APR stands for (Annual Percentage Rate)
- 22% could not identify what ISA stands for (Individual Savings Account)

Payday loanees struggling the most

The study showed that 15% of UK adults have taken out a payday loan. And over half (52%) of these borrowers could not correctly identify the meaning of a 'loan' – with nearly one in five (18%) believing there is no obligation to pay a loan back.

Among this group, 68% could not identify the meaning of 'interest' while 64% could not identify what APR stands for. Consequently, one in ten (10%) have had to turn to unregulated loans such as loan sharks to pay off existing debts. This group has also been hit the hardest by misunderstanding financial terms, with the average cost of this being £1,405 in the last year alone.

Knock-on impact

The knock-on impact of being out of pocket due to misunderstanding or not reading terms and conditions was that 6% missed out on a holiday, 4% had to move home to their parents, and an additional 4% had to take on an extra job. Of those who had taken out payday loans, 13% had to move home to cope with the cost of misunderstanding financial terms and one in ten (9%) were left unable to pay household bills.

Responding to the findings, **Jane Symonds, a money expert at the Money Advice Service**, says:

“Reading and understanding the terms and conditions of a financial product can seem long and unnecessary, but if you don’t, you may end up incurring unexpected penalties and possibly even impact your credit score.

“There are many ways in which you can lose money by not properly understanding terms and conditions. Early repayment charges on loans and mortgages are a common financial headache, and many people fall foul of penalties for taking savings money out early from long term saving accounts, or incur late repayment charges on credit cards.

“Our financial decisions can be life-changing, and if you misunderstand what you’re signing up to, it could haunt you for many years to come. So take time out to fully understand what you’re agreeing to, and visit the Money Advice Service website where we have plenty of tips to help you get to grips with various terms and conditions. We even have a jargon [quiz](https://www.moneyadviceservice.org.uk/en/tools/do-you-know-your-ear-from-your-elbow) to test if your own knowledge of financial terms is up to scratch.”

ENDS

NOTES TO EDITORS

1) Research conducted by One Poll for The Money Advice Service in August 2014 among 3,000 UK adults

*The survey asked people how much they believed misunderstanding financial terms in the last year had cost them. The average cost was £427.90. Collectively this equates to £21bn (49,122,174 adults (derived from 2010 ONS Population tables) multiplied by £427.90 = £21,019,378,255).

About the Money Advice Service

The Money Advice Service is an independent organisation. It gives free, unbiased money advice online at moneyadviceservice.org.uk, over the phone on 0300 500 5000, and face-to-face right across the UK. The Service was set up by Government and is paid for by a statutory levy on the financial services industry, raised through the Financial Conduct Authority. Its statutory objectives are to enhance the understanding and knowledge of members of the public about financial matters (including the UK financial system); and to enhance the ability of members of the public to manage their own financial affairs.

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For resource syndication:

- Money Advice Service tools and resources are available free for syndication. For further information please contact 020 7943 0616 or email Gary.Harvey@moneyadviceservice.org.uk