A Financial Capability Strategy for the UK: The Evidence Base

Executive Summary

The Money Advice Service is coordinating the development of a new Financial Capability Strategy for the UK (‘the UK Strategy’). This builds on the first UK Financial Capability Strategy which was published by the Financial Services Authority in 2006. The Money Advice Service is working closely with partners from the financial services industry, the advice sector, the third sector and other relevant experts to develop the Strategy and the priorities and success measures that it will set out.

The purpose of the Financial Capability Strategy is to build the financial resilience of individuals within the UK by improving their financial capability, that is, the ability of individuals to manage their money well. Increasing financial capability will help reduce the risk of falling into unmanageable debt and falling into poverty in later life.

This paper summarises the evidence considered by the Money Advice Service in developing initial thinking on the UK Strategy. It outlines the evidence around why financial capability is important, and the benefits of financial capability for consumers, industry, and the state. Alongside this document, we have published a summary of the responses to our UK Strategy Call for Evidence, which is also available on our website.

Research confirms that if people take positive action regarding their money, such as budgeting, shopping around, or increasing their take up of insurance policies, the net benefit to the individual is substantial. Being more financially capable also has positive knock on effects to the financial services industry, helping to avoid debt write-offs and reducing acquisition costs, and to the state and wider society, increasing the amount of tax receipts, and stimulating the wider economy.

The 2006 Strategy did a great deal to raise the profile and status of financial capability in the UK, and set out effective ways to segment, reach and engage the millions of people that need help managing their money.

This paper reviews changes in the landscape since 2006. The economic climate has changed significantly in recent years, and the paper outlines the macro-economic factors affecting people’s ability to manage their money. A number of factors are increasing the difficulty of financial decision-making including the continued strain on household budgets and the increasing number and complexity of financial products and services. These changes are reflected in financial behaviour and the 2013 Financial Capability Tracker found that many people are not planning

1 ‘Delivering Change’, Financial Services Authority, 2006
2 The Financial Capability of the UK, Money Advice Service, August 2013
ahead, keeping track of their money, or making informed decisions. These three ‘domains’ are the **priority needs** of people’s money management that the strategy will focus on.

Tackling financial capability is now recognised as an important public policy objective around the world and the paper pulls together **learning from other strategies, both within the UK and internationally.** Since 2006, many countries around the world have developed their own national strategies, and the OECD has produced high level guidance on how national strategies can best contribute to raising levels of financial capability. This includes the importance of mapping existing initiatives, assessing consumer needs, and the benefits of collaboration between organisations. This approach will inform the development of the new UK strategy.

In order to engage and help people, this paper also outlines the approach that we are taking to the development of the strategy. This will focus on developing proposals for three broad groups: young people (up to age 25), working age people, and older people (over age 65). Within each of these groups, we are doing detailed analysis to identify those who need the most help to improve their financial capability, and to identify the most effective approaches. We will use this insight to develop plans with our partners to address specific detriments and plan to consult on the first iteration of the UK Strategy in the summer.
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The Consumer need

Despite all the available information and advice, from the industry, the media, third sector bodies, Government and elsewhere, **millions of people in the UK are failing to manage their money and make provision for the future.**

There is a significant body of evidence pointing to a large gap in the availability and take-up of advice and information about money matters. There have been several studies which seek to quantify the depth and scale of this advice gap, and of people’s ability to manage their money. Research from the Money Advice Service suggests that 23 million people don’t know where to turn for impartial advice on credit and borrowing,³ while seven out of ten people think they have no need for any impartial information, guidance or advice on financial matters.⁴

Coupled with this, the advice landscape is changing. Many people no longer have access to, or want, regulated advice. Industry estimates suggest there are 30 million people for whom full regulated advice would be uneconomic, up from 11 million in 2001.⁵ In March 2013, the FSA revealed there had been a 20 per cent drop in total adviser numbers since December 2011 and the number of bank and building society advisers had decreased by 44 per cent.⁶

Some work has suggested that advice should be targeted at those who need it most. For example, Otto Thoresen’s 2008 review of generic financial advice identified 19.2 million people who were particularly vulnerable to the consequences of poor financial management.⁷ The Money Advice Service identified over 10 million people who were not demonstrating at least four out of five money management behaviours,⁸ such as saving regularly, currently paying into a pension, or having life insurance.⁹

There is also an increasing body of evidence that people have low skills and knowledge when it comes to their own finances. Money Advice Service research suggests that 11 per cent of people believe the current Bank of England base rate to be over 10 per cent, and 16 per cent of people are unable to identify the balance on a bank statement.¹⁰ These findings correlate with the FSA’s Financial Capability Baseline survey in 2006, which found that all sections of society, but particularly those under 40, lacked the basic skills and knowledge to make the right financial decision.¹¹

Benefits of improving financial capability

There is now a well-developed evidence base, both in the UK and internationally, showing the positive effect that financial capability interventions can have, both for the individual and society more widely.

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⁴ Brand survey, Consumer Financial Education Body, 2010
⁵ ‘Increasing Consumer Access to Advice’, Association of British Insurers, 2010
⁶ FSA, March 2013
⁷ Thoresen, 2008
⁸ 2013/14 Business Plan, Money Advice Service, 2013
⁹ Ibid
¹⁰ The Financial Capability of the UK, Money Advice Service, August 2013
¹¹ Levels of Financial Capability in the UK, Financial Services Authority, 2006
Benefits to the individual

The Thoresen Review sought to identify the costs and benefits – to the industry, to government, wider society, and to consumers themselves – of a central body set up to deliver a national ‘money guidance’ service.\textsuperscript{12} This body was established in 2010 and became the Money Advice Service in 2011.

The analysis in the Thoresen report sought to show that over a million consumers (the projected annual reach of a ‘generic financial advice service’) would achieve benefits to the individual, collectively, of over £300m per year, if they became:

- better at budgeting – people facing a shortfall in income will reduce expenditure and draw down on available savings as a result;
- better at managing their debt – people with a surplus of income will pay off high-interest debt first;
- more confident at shopping around – people will get better rates for their savings and debt products, and people will exercise their ‘open market option’ when buying their annuity;
- more likely to invest in pensions – people will save more regularly and be less likely to ‘opt out’ of automatic enrolment; and
- better at taking up protection products – more people will purchase life insurance products.

Increasing financial capability can produce other tangible benefits for the individual including helping to alleviate stress and promote individual wellbeing. This link between a person’s overall ‘wellbeing’ and how effectively they manage their money was explored in detail by the FSA in 2009, which found that an individual’s financial capability is strongly related to their psychological wellbeing, increasing life satisfaction, and reducing the probability of an individual suffering a health problem related to anxiety or depression by 15 per cent.\textsuperscript{13}

A research report on ‘The Long Term Impacts of Financial Capability’ indicates that improving a person’s financial management skills also has a positive effect on their mental health, living standards, savings behaviour, and household incomes. This evidence also suggests that the failure to help improve the financial management skills of individuals with the lowest skill level may have longer-term impacts across a number of different domains including planning ahead, making ends meet and staying informed.\textsuperscript{14}

Studies in the US have found that those who have greater financial knowledge are more likely to accumulate higher amounts of wealth.\textsuperscript{15} Research has also found that those with higher ‘financial literacy’ (albeit this measure focuses on skills and knowledge only) are more savvy investors, opt for less costly mortgages, and avoid high interest debt payments.\textsuperscript{16}

\textsuperscript{12} Thoresen, 2008
\textsuperscript{13} ‘Financial Capability and wellbeing: evidence from the BHPS’, Financial Services Authority, 2009
\textsuperscript{15} ‘Financial Literacy, Retirement Planning, and Household Wealth’, Lusardi et al, 2011
\textsuperscript{16} ‘Financial Literacy and Subprime Mortgage Delinquency: Evidence from a Survey Matched to Administrative Data’, Gerardi et al, 2010
Industry benefits

But the impact of financial capability goes wider than the individual. The Thoresen report sets out a compelling case of the benefits of people doing various money management ‘basics’. These figures are indicative as they were based on modelling assumptions around particular ‘outcomes’, to be delivered by one body, but reflect the wider benefits that financial capability can have. For example, the report states that total industry benefits, each year, of people being better at budgeting and being more capable of managing their debt was estimated to lead to the industry avoiding £83 million of write-offs every year.17

Reduced time advising and selling to consumers was estimated to save the industry between £50 million and £100 million a year. And it was also estimated to save the industry between £18 million and £40 million a year as more people understand their need for financial products and are more likely to engage with the industry and buy products.18

Benefits to the state and wider society

The Thoresen analysis identified that more people saving for a pension would reduce the payment of pension credit (although this is likely to be offset with the introduction and roll-out of automatic enrolment and the proposed single tier state pension).

The analysis identifies that tax receipts to HM Government may rise as a result of consumer expenditure rising in aggregate, and through increased tax receipts on annuity payments. While, in this example, these quantifiable benefits to the public purse are far less than those projected for the pensions industry, there are wider benefits for HM Government of greater financial capability – more people will be encouraged to be more ‘self reliant’ (supporting the government’s empowerment/personalisation policy agenda), and have increasing independence in old age, through better retirement planning (including planning for expected or unexpected social or long-term care needs) and making better choices at the time of buying an annuity.19

The acknowledgement of the wider benefits of financial capability can also be found in ‘Transforming Financial Behaviour’, which sets out how inadequate provision for retirement creates a burden for the state, and that the absence of financial capability can divert economic resources from more productive uses. It goes on to outline that people who are not financially capable mean that firms have to spend more time educating consumers and developing systems to mitigate risks. The costs of this are passed on to all consumers.20

There has been some additional work done to quantify the relationship between money and overall productivity. A 2009 study looked at various financial capability initiatives in Leeds, ranging from Citizens Advice sessions to support from Credit Unions and Housing Associations, to support for employees in the workplace. The study identified that, on average, every £1 invested in financial capability activity generated £8.40 of spending by individuals and industries in the regional economy.21

17 Thoresen, 2008
18 Ibid
19 Ibid
As part of the development of an evaluation framework through the new UK Strategy, we will seek to address the impact of individual programmes in helping people manage their money, helping to ensure that individual programmes contribute the maximum benefit to the individual, industry, government and society.

What’s changed since 2006?

The wider landscape

The new UK Strategy will operate in a very different policy context from the last. The dramatically changed economic and financial landscape – and the impact of policy responses – is exerting a significant influence on people’s financial attitudes, behaviour and needs.

As household budgets come under increasing strain, the ability and inclination to insure for family protection is reduced for many at a time when the need for cover is more imperative. Similarly, the need to save for the future becomes more critical but the ability and inclination to save is reduced for many; and the ability to repay unsecured debts becomes, in some cases, more difficult as well as increasingly urgent.

Credit is much more widely available. Outstanding personal debt stood at £1.4 trillion at the end of July 2012, compared with almost £1.2 trillion at the start of 2006 (when the last National Strategy was launched).\(^{22}\) Many people, across all income groups, are still failing to put money aside for a “rainy day”. Scottish Widows analysis suggests that nearly one in three households would not be able to cope financially if they lost their main income.\(^{23}\) Swiss Re estimate the “protection gap” – the difference in the amount of cover people hold and the level they should ideally have in place to cover their life insurance needs – at £2.4 trillion (by sums assured).\(^{24}\)

Like household budgets, public sector finances are under considerable strain driving a focus on reducing cost. This presents a challenging context in which to develop a Strategy that aims to deliver even greater behavioural change among increasing numbers of people. But it also presents an opportunity to make the case for financial capability interventions to be recognised as an important lever to maximise people’s income and financial resilience, particularly those most vulnerable to poor outcomes. It is also timely to recognise the contribution that increased financial capability can make to supporting economic growth by improving the employability and productivity of the workforce, increasing household incomes and reducing debt and arrears.

Even prior to the 2008 financial crisis, people were increasingly being required to take greater personal responsibility for their financial wellbeing as state and private support retreats in the face of shifting demographic profiles. Increasing life expectancy means that individuals need to ensure that they accumulate savings to cover much longer periods of retirement and their potential need for long-term care. Increasing longevity also reduces the scope for younger generations to inherit as more families find that assets are used up in retirement. The government’s plans for welfare reform and social care will place new demands on people’s money management skills, putting more onus on individuals to ‘self-manage’ their money.

\(^{22}\) Personal Debt Statistics, Credit Action, 2012


\(^{24}\) ‘Term and Health Watch 2012’, Swiss Re, 2012
Financial products and services are increasingly complex, with people often needing to make comparisons across a number of factors such as fees charged, interest rates, length of contracts and exposure to risk. Government and industry are working closely together to develop a range of ‘simple’ savings and protection products to help people navigate the landscape better. But there remains a significant onus on the individual to understand the benefits and risks of a particular product, how appropriate it is for them, and to shop around to find the best deal. Recent regulatory developments to make it easier to switch bank accounts, for example, represent progress in terms of the scope for individuals to exercise choice, but do little to tackle the impact of inertia, leaving the onus on the individual to act.

The development of a new strategy to increase financial capability in the UK is taking place against the backdrop of reform of the financial regulatory architecture. This has provided a stronger focus on consumer protection, through the creation of a Financial Conduct Authority (FCA), which has an obligation to enhance confidence in the financial system by ensuring robust, fair and proportionate consumer protection. As the FCA has recognised, consumers make irrational choices and more needs to be done by the regulator to protect people from inherent biases.

The new regulatory requirements for financial advice following the Retail Distribution Review have important implications for the broader advice landscape. The new requirements are designed to raise professional standards among financial advisers and increase trust. But they may reduce access to formal advice, particularly for those who are not considered high net worth. They may also prompt a growth in ‘do it yourself’ investing, particularly if accompanied by growth in online, consumer friendly technology solutions.

Trust in the financial services industry has been damaged over recent years, leading to lower levels of engagement with the industry. This is a contributing factor in the low take-up of savings and protection products and the increased use of non-mainstream alternatives. Restoring trust will take time and concerted action by a range of stakeholders.

Technological changes also exert significant influence on consumer behaviour. Recent years have witnessed the growth of internet and telephone banking and increasing use of price comparison sites. Looking ahead, we are likely to see increasing use of mobile phone payment systems to transfer funds between accounts and purchase goods; as well as the growth of low cost platforms for transacting investment purchases and managing a portfolio of assets.

Technology also presents new opportunities for those engaged in delivering advice and financial planning services and providing new tools to help people keep on top of their finances. In particular, innovations in technology, combined with new insights on financial behaviour and psychology, offer the potential to create more effective approaches to improving people’s financial capability. At the same time, these technological developments also present new and largely untested risks for people and there is concern for those segments of the population who cannot, or choose not to, access new technology.

The impact on people’s financial capability

Since 2006, the time of the FSA baseline survey, the Annual Survey of Hours and Earnings from the Office for National Statistics shows that real income per hour has fallen by 6 per cent, making it harder for people to make ends meet.\textsuperscript{26} The following table summarises responses to key questions from the 2006 and the 2013 tracker surveys, showing direct comparisons where possible.\textsuperscript{27}

<table>
<thead>
<tr>
<th>Making ends meet &amp; Keeping track</th>
<th>2006</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Struggle with bills and commitments</td>
<td>35%</td>
<td>51%</td>
</tr>
<tr>
<td>Have to cut back in the three days before they are paid / get benefits</td>
<td></td>
<td>34%</td>
</tr>
<tr>
<td>I sometimes have to choose which bill to pay first because I can’t cover them all at once</td>
<td></td>
<td>19% of bill payers</td>
</tr>
<tr>
<td>Keep track of their income and outgoings</td>
<td></td>
<td>86%</td>
</tr>
</tbody>
</table>

| Do not set a personal budget                         |      | 39% of all adults |
|                                                     |      | 45% of those who track |

<table>
<thead>
<tr>
<th>Planning Ahead</th>
<th>2006</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>When it comes to money you live for today</td>
<td>39% (tend to)</td>
<td>24% (prefer to)</td>
</tr>
<tr>
<td>Agree they make sure they have money saved for a rainy day</td>
<td>75%</td>
<td>63%</td>
</tr>
<tr>
<td>Not paying into a pension (working age)</td>
<td>42%</td>
<td>67%</td>
</tr>
<tr>
<td>Have life insurance</td>
<td></td>
<td>29%</td>
</tr>
<tr>
<td>Do not save every month</td>
<td></td>
<td>42%</td>
</tr>
<tr>
<td>Regularly save money for their children (of those with children)</td>
<td></td>
<td>50%</td>
</tr>
</tbody>
</table>

\textsuperscript{26} RPIJ Index, Department for Work and Pensions, 2013

\textsuperscript{27} Data below referenced from ‘Levels of Financial in the UK’, 2006, and ‘The Financial Capability of the UK’, 2013
As this shows, over half the population now state they are struggling to keep up with bills and financial commitments compared to just over a third in 2006, despite more people checking their statements more carefully and frequently. The 2013 baseline states that 56 per cent of people regularly check all entries in bank statements (compared to 36 per cent who checked the detail to ensure they looked right in 2006) and only 2 per cent didn’t look at statements at all or in any detail (compared to 6 per cent who appeared to ignore their statements in 2006). In addition to this, a third of people have said that they have to cut back in the run up to payday in 2013, indicating that a significant proportion of people are struggling to manage their spending within their existing means.

Planning for the future can help offset future detriment. A third of people have experienced an income shock in the last three years. However, fewer people are planning ahead and saving for a rainy day with 63 per cent of people agreeing they make sure they have money saved for a rainy day compared to 75 per cent in 2006. With nearly nine in ten (88 per cent) recognising that saving for a rainy day is important, it is clear there is a disconnect between peoples’ understanding and their behaviour.

The 2013 survey asked people to choose the best performing product from a range of ISA savings accounts and 29 per cent of people were not able to pick the best account offered within the range. In addition to this, 33 per cent of people couldn’t demonstrate they understood the impact inflation would have on their money. This indicates that a significant number of people are not yet in a position to make informed decisions that will provide them with the best outcome for their financial capability.
Learning from other strategies

‘Delivering Change’

The UK has been regarded as ‘world leading’ in its approach to tackling financial capability. The first National Strategy for Financial Capability – ‘Financial Capability in the UK: Delivering Change’ – covered the period 2006-11.28 It was led by the Financial Services Authority and aimed to develop informed, confident consumers who would be better able to take control of their finances.

The strategy was informed by the findings from a survey of the UK’s financial capability, published in March 2006.29 This measured the financial capability of adults across the country, identifying five core elements of capability:

1. making ends meet;
2. keeping track of personal money;
3. planning ahead;
4. choosing financial products; and
5. staying informed about financial matters.

This study highlighted the importance of skills and knowledge as influencers of financial behaviour. The report found that most people were reasonably good at managing their money day to day (keeping track of their finances and making ends meet), but that most people, particularly younger adults, were poor at planning ahead and anticipating their future needs, and that many people did not take adequate steps to choose products that met their needs, failing to shop around and taking on risks without realising they were doing so. This study showed that people needed most help around planning ahead and choosing financial products.30

The strategy set out long-term measures to lay the foundations for sustained improvement over time, and shorter-term measures for a more immediate impact, targeting a range of groups at key life stages. This included school children, young people who are Not in Education, Employment or Training (NEET), students in universities and further education colleges, employees in their workplace and new parents.

The strategy exceeded its target of reaching 10 million people through its various programmes.31 A short summary of the key strands of activity is set out below.

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28 ‘Delivering Change’, 2006
29 Financial Capability in the UK: Establishing a Baseline, FSA, 2006
30 ‘Levels of Financial Capability in the UK’, 2006
<table>
<thead>
<tr>
<th>Target group</th>
<th>Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schools</td>
<td>The FSA’s ‘<em>Learning Money Matters</em>’ programme, delivered by the Personal Finance Education Group (pfeg) in England, helped secondary school teachers in 4,000 schools embed financial education within their school curricula. The FSA also funded officers to work with both primary and secondary schools in Scotland, Wales and Northern Ireland to provide direct support for teachers and to raise the profile of financial capability within national curricula and policy. In total, almost 1,800,000 pupils were reached.</td>
</tr>
<tr>
<td>Young People</td>
<td>The FSA worked with intermediaries in universities and in the youth sector across the UK, delivering support and training to key practitioners working with young people. It directly trained 15,000 youth work intermediaries and reached around 1 million young people not in training, education or employment. It also reached around 2 million young students in higher education.</td>
</tr>
<tr>
<td>Employees in the workplace</td>
<td>The FSA’s ‘<em>Making the most of your money</em>’ workplace presentation and printed guide provided employees with information about managing their money in their place of work. It met its target of ensuring that over 4 million people received material through their employer or trusted partner; and its workplace seminar was delivered to more than 150,000 people. Research showed that over 80% of seminar attendees intended to take action as a result of attending the seminar; and when contacted 3 months later, 60 per cent had already turned intention into action.</td>
</tr>
<tr>
<td>New parents</td>
<td>The FSA developed and distributed a <em>Parent’s Guide to Money</em> resource to over 1,500,000 parents. Evaluation showed that 55 per cent of parents felt more confident regarding financial issues after receiving the guide.</td>
</tr>
<tr>
<td>Consumer communications and online tools</td>
<td>A new consumer website was launched along with a revised suite of publications, covering a range of topics from opening a bank account and choosing a mortgage, to shopping around for a good deal and getting advice. Annual visits to the website grew to 4 million. A number of new handbooks and online resources were also developed, for example:</td>
</tr>
<tr>
<td></td>
<td>• The FSA worked with key intermediaries in the family support and law arena to develop an online resource for those contemplating or going through a divorce or separation. Research showed that 74 per cent of people would recommend the site.</td>
</tr>
<tr>
<td></td>
<td>• Printed handbooks for those approaching retirement and those facing redundancy were distributed via a range of intermediaries.</td>
</tr>
</tbody>
</table>
Learning from ‘Delivering Change’

The 2006 strategy succeeded in exceeding its target of reaching 10 million people through its delivery programme. Perhaps more importantly, it changed the way we think about financial capability and the important role it has to play in UK society. Despite this success, our 2013 financial capability tracker shows that people still lack the right skills, knowledge, attitudes, motivation and opportunities to make the most of their money.

**The first National Strategy provided a strong focus for building financial capability, put the issue ‘on the map’ and helped to build momentum across the UK.** It brought together interested parties from industry, consumer bodies, voluntary organisations, government and the media, all with the aim of finding ways to improve people’s ability to manage money.

This change is clearly seen by government recognition that it also has a role to play in improving the nation’s financial capability. In 2007, it published “Financial Capability: the Government’s long-term approach”. From this, the Government saw a particular gap in the market for generic advice and commissioned an independent review led by Otto Thoresen to examine the feasibility of **delivering a national approach to generic financial advice.**

The Thoresen review reported in 2008, concluding that there was a strong need, and business case, for a national service which would bring significant benefits to individuals and the UK’s economy as a whole. Following a successful ‘pathfinder’ to test the approach recommended by Thoresen, the Money Advice Service was established to deliver a multi-channel national service for money advice.

This strategy also told us that **interventions must be firmly rooted in an understanding of consumer needs** and developed through a process of **testing, evaluation and refinement.**

Another key finding is the need to have a solid understanding of the impact of interventions. To be able to identify the relative value for money, effective measurement must be **focused on the outcomes of initiatives not just on inputs,** for example measuring an increase in levels of saving rather than the number of people going through a particular programme. The finding is supported by a study commissioned by the Money Advice Service into the impact of financial education for young people. It highlighted the lack of a robust evidence base around behaviour change and was felt to be due, in part, to the lack of agreed, measurable and robust key performance indicators that will create a framework for ensuring that the resources used on financial education programmes aimed at young people have the greatest impact.

**Working through trusted intermediaries has been shown to be an effective way to reach and engage target groups.** The use of ‘trusted messengers’ is frequently highlighted by behavioural psychologists as a powerful tool to change behaviour, given the evidence that people are heavily influenced by who communicates information.

And finally, **targeting people at key life stages** - what are sometimes referred to as ‘teachable’ moments - was an important feature of the Delivering Change programme and more recent

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32 The Financial Capability of the UK 2013, Money Advice Service
34 Thoresen, 2008
interventions. These are times in people’s lives when they are likely to be more receptive to financial information or advice, such as the birth of a child, facing redundancy or approaching retirement. We explore this in greater detail below.

We now know much more about consumer behaviour, and the ways to influence people’s financial capability than in 2006. Much of this learning was through the first UK Strategy. While the 2006 Strategy did include some measures of overall success (in terms of reach) and did include some measures of effectiveness of individual programmes in regard to confidence and, in some cases, behaviour (examples of which are referenced in the table above), the strategy did not emphasise the measurement of behaviour change in assessing its success. We want to build on this work, and go much further in assessing and quantifying the behaviour change the Strategy will look to impact.

There is now extensive evidence that successful money management is influenced by personal attitudes and motivations towards money as well as skills and knowledge\(^\text{37}\). These wider factors can play a big part in making good decisions and achieving positive behaviour change.

The new UK Strategy will build on these findings, acknowledging that the prevailing economic climate and insight from international strategies, together with developments in the industry and government policy, mean that the solutions are necessarily different to those developed in 2006.

**Financial capability strategies around the world**

The importance of tackling financial capability is increasingly recognised as an important part of consumer protection outside the UK and we can learn much from work done internationally. In 2006, the OECD stated that financially educated consumers can ‘help ensure that the financial sector makes an effective contribution to real economic growth and poverty reduction’. This was recognised by G8 Finance Ministers in 2006, who acknowledged ‘the importance of better financial education and literacy for improving the ability of people to use financial services and to make effective decisions’.\(^\text{38}\) High-level international groups have been set up, including the International Network for Financial Education, to drive forward this agenda and to co-ordinate and share learning and best practice.

A number of countries have put in place national strategies to co-ordinate efforts in their respective countries, many of which are informed by the FSA’s groundbreaking work. Recognising this, the OECD developed a set of **high level principles for the development of national strategies**\(^\text{39}\) which include:

- conducting a survey to outline consumer needs in a particularly country, setting a baseline for levels of financial capability;
- mapping existing initiatives;
- assessing consumer needs to define target groups on which the strategy should focus;
- putting in place short- and long-term objectives for each of these target groups;
- consulting and collaborating is vital to avoid unnecessary duplication of effort and achieve widespread buy-in; and
- putting in place mechanisms to measure the success of a national strategy.

\(^{37}\)Money Lives research, Money Advice Service, due to be published early 2014

\(^{38}\)Pre-Summit Statement by G8 Finance Ministers, June 2006

\(^{39}\)OECD/INFE HIGH-LEVEL PRINCIPLES ON NATIONAL STRATEGIES FOR FINANCIAL EDUCATION, OECD, 2012
In September 2013 the OECD published a paper on ‘Advancing National Strategies for Financial Education’, further setting out the principles of what a national strategy should address (predominantly around co-ordination and providing guidance), and outlining principles such as defining a clear target market, the importance of life stages, and the need to build in clear evaluation into the strategy.\textsuperscript{40} Recommended areas for further work include focusing on strengthening the efficiency and sustainability of financial education strategies, and to integrate financial education, consumer protection, and financial inclusion policies to bolster their overall impact. These are all aspects that the UK Strategy will address.

Many countries have already developed their own national strategies, to better co-ordinate provision and improve consumer outcomes. For example, the Australian National Financial Literacy Strategy, owned by the Australian Securities and Investment Commission, seeks to co-ordinate universal coverage with a focus on young people via education, and with specific interventions for vulnerable groups, assigning responsibilities to a wide range of public and private sector partners.\textsuperscript{41} China’s national strategy is rooted in its baseline study, and focusses on vulnerable groups including the elderly and the poor in rural communities.

The vast majority of existing national strategies seek to target both young people (in and out of school) and older people, with an additional emphasis on specific vulnerable groups within the rest of the population. All emphasise that co-ordination is important. For example, the Netherlands is currently refreshing its ‘Money Wise’ strategy which will focus on implementing a ‘key co-ordinated approach … under … strong leadership’.

Nations within the UK have also implemented national strategies. ‘Taking Everyone Into Account’, the Welsh Government’s financial inclusion strategy, sought to target the financially excluded by working in partnership with banks, credit unions, advice agencies and educators, to increase access to financial products and increase basic skills, including instilling money management basics.\textsuperscript{42} In Northern Ireland, the Department for Enterprise, Trade and Innovation has recently launched an Executive Strategy which will co-ordinate public sector financial capability interventions. Action Plans outlining responsibilities for organisations across Northern Ireland will be launched in spring 2014.

The OECD and G20 are committed to taking forward further work to develop a comprehensive evidence base to assess the effectiveness of individual strategies. The UK will continue to play an active part in this work and will incorporate its findings in development and implementation of the new UK Strategy.

\textsuperscript{40} ‘Advancing National Strategies for Financial Education’, OECD, 2013
\textsuperscript{41} http://www.financialliteracy.gov.au/
\textsuperscript{42} ‘Taking Everyone into Account’, Welsh Assembly Government, 2009
What should the new financial capability strategy for the UK address?

Needs

Using the evidence available from the Service’s research, the call for evidence submissions and information from the approach taken by international organisations, the Money Advice Service recommended to the Steering Group, a panel of experts who are overseeing the development of the strategy, that the current Strategy should focus on three areas in the first instance:

1. keeping track of money;
2. planning ahead; and
3. making informed decisions.

This approach builds from the five domains identified in the Delivering Change Strategy.43

As outlined above, many more people are struggling to keep up with their commitments than in 2006 – helping people keep track, which includes work to help manage day to day, is a significant need and will be a key focus of the strategy. People are still not planning for the long term, and savings rates are now much lower than in 2006 – together with the day to day, we want to help people plan ahead for expected (and unexpected) events, and this continues to be a key area of focus. Given the increasing complexity of the financial services marketplace, ‘making informed decisions’ is an even more significant priority than previously, and we believe that working with the industry and others we can make significant inroads in helping people make better informed decisions at the point of product purchase.

Within these three target domains, there are some key issues that will need to be addressed for each target group and sub-group. For example, those under 16 will have less to manage in terms of day-to-day budgeting, paying bills and managing commitments such as paying down debt, while working age people will need to start thinking about how they will provide for themselves and any dependants in older age. In turn, those approaching retirement will need to make and then review choices about how they manage their funds during the decumulation phase.

The financial capability tracker tells us that those in the age group 35-54 are more likely to struggle to meet their commitments than younger or older people. For younger people, difficulty interpreting the impact of inflation on savings, and 15 per cent of 18-24-year-olds believing the current Bank of England interest rate is above 10 per cent, point to a skills and knowledge gap that could impact their ability to make well informed decisions that will enable them to make the most of their money.44

43 These were: making ends meet; keeping track; planning ahead; choosing financial products; and staying informed. We propose combining ‘staying informed’ and ‘choosing financial products’ into the domain of ‘making informed decisions’. We also propose that ‘making ends meet’ is an implicit part of ‘keeping track of money’.

44 The Financial Capability of the UK, 2013
Priority groups

The new UK Strategy will focus on developing proposals for three broad groups: young people (up to age 25), working age people, and older people (over age 65). Within each of these groups, we are doing detailed analysis to identify those who need the most help to improve their financial capability, and to identify the most effective approaches.

**Young People**

Improving the skills, knowledge, and attitudes of young people, is vital to providing a bedrock of more financially capable adults. It is widely evidenced in many fields of behavioural science – from obesity to smoking, that prevention is better than a cure; that developing the right habits is more cost effective than changing behaviours. Financial capability is no different.

Money Advice Service research has shown that many financial attitudes are formed before the age of seven with almost all financial behaviours in place by the age of 15. What differs is young people’s cognitive ability to assess risk, with the brain not fully maturing until the mid-20s by which time the ability to regulate emotional responses appropriately to situations has developed.

This strand of work encompasses a wide age group comprising different needs, different preferred channels of delivery and a range of potential consequences from poor decision making. Our research shows that of those under 18, parents are the strongest influence on young people’s financial behaviour. From 18-25, parents retain an important influence, with peer advice also gaining a strong foothold.

Young people need to interact with money at an ever earlier age. Online research by YouGov for the British Bankers’ Association (BBA) and financial education charity pfeg (Personal Finance Education Group) shows that 58 per cent of children bought something online or had something bought for them online for the first time before they were 12. The consequences of poor financial management are pronounced in the older part of this age group with over a third of 18-24 year olds currently over-indebted.

This is why it is so important for the strategy to take a blended approach in order to reach young people. It will focus on supporting young people through their families, through informal and formal learning opportunities (school, community groups, first jobs) and will aim to ensure that young people aged 16 – 24 who are making financial decisions for the first time, get the right advice at the right time.

**The working-age population**

We are undertaking further analysis to establish key areas of financial detriment which will help to prioritise the focus for the Strategy development for the working-age population. This is likely to include, but not exclusively focus on, life events.

Life events, such as divorce or separation, retirement, or having a baby, provide salient points when people are most likely to be thinking about money and engage with money matters. These points also provide organisations with the opportunity to target their interventions to people at

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45 Habit Formation and Learning in Young Children, Money Advice Service, May 2013
‘teachable moments’, when they are likely to be more receptive to information and advice, and provide the impetus for people to seek help with their money.

There is an extensive evidence base for using these life events or ‘teachable moments’ as the basis for the UK Strategy. As detailed above, the success of the previous UK Strategy was rooted in life stages, targeting new parents, those facing separation, or those facing redundancy, through a multitude of channels.

The FSA published a paper in 2009 on the ‘impact of life events on financial capability’, analysing the evidence from the British Household Panel Survey (BHPS) to examine how life events affect levels of financial capability.\(^{46}\) This research found that there are life points at which people’s financial capability level changes, indicating that they are particularly in need of intervention at these points to help them adjust to new, perhaps unexpected, challenges. For example, this research found that having a baby is associated with a reduction of financial capability and a 19 per cent increase in financial problems for the average individual, while becoming unemployed increases financial problems by 63 per cent, even when controlling for income changes. Together with retirement and divorce and separation, these four life events see significant increase in people’s financial problems.

The Thoresen report further recognised that life events represent an opportunity to engage people at a time when money advice will be most relevant to them.\(^{47}\)

The Money Advice Service, building on this approach, seeks to target people at a number of key life events, as does the work of many other organisations across the UK. For example, Age UK’s ‘Planning for Later Life’ programme seeks to help older people experiencing significant events, such as losing a loved one, a partner going into care, or a change in housing circumstances.\(^{48}\)

Recent research in the USA has pointed that the effectiveness of financial education can be limited if it is not provided to people at salient points in their lives. A study into ‘Financial Literacy, Financial Education and Downstream Financial Behaviours’, by three leading US academics, conducted a meta-analysis of the relationship of financial literacy and of financial education to financial behaviour, analysing more than 200 prior studies.\(^{49}\)

The findings show that the effects of financial education interventions erode over time and imply that content knowledge may be better conveyed via ‘just-in-time’ financial education tied to a particular financial decision. It also finds that much behaviour is controlled by habits, which can be most effectively influenced at a time of a key ‘transition point’ (or life event). The report envisages a role for financial education that is both ‘just-in-time’ and more closely tied to the specific behaviours it intends to help.

Countries across the world also focus on life events. The OECD’s high level principles on financial consumer protection states that, ‘Taking into account national circumstances, financial education and awareness should be encouraged as part of a wider financial consumer protection

\(^{46}\) ‘The Impact of Life Events on Financial Capability’, FSA, 2009
\(^{47}\) Thoresen, 2008
and education strategy, be delivered through diverse and appropriate channels, and should begin at an early age and be accessible for all life stages.\textsuperscript{50}

Building on this, the OECD’s ‘Principles of National Strategies’ states that, “financial education should preferably be provided to individuals … at ‘teachable moments’ of their lives when they are making long term plans, when they are about to make important decisions (e.g. wedding, pregnancy, new job, divorce, retirement, unemployment)”.\textsuperscript{51} The OECD’s document ‘Advancing National Strategies’ confirms that existing “national strategies … often define key target audiences” and that “some countries are refining their approaches through the identification of key life stages and teachable moments in individuals’ lives”.\textsuperscript{52} A good example of this is current work being done in the Netherlands, which is focused on people who have experienced a major life event.

**Older People**

While most studies find that older people are more financially capable than those under 40, there are specific vulnerabilities in this group that the UK Strategy will seek to address. The focus on older people is shared with many countries across the world, with Brazil, Canada, China, Korea, Turkey and the USA just some countries who put significant focus on the needs of older people in their national strategies.\textsuperscript{53}

There are almost 11 million people in the UK over the age of 65 and this is growing rapidly.\textsuperscript{54} The number of people aged 65 and over is projected to rise by nearly 50 per cent in the next 20 years to over 16 million.\textsuperscript{55} Current average retirement age is 64,\textsuperscript{56} which is expected to rise in the future as the State Pension Age increases and people defer retirement to increase the size of their pension pot. Incomes in retirement remain low. The average annuity purchase in 2012 was around £33,000.\textsuperscript{57} Coupled with this, older people tend not to have sufficient savings to deal with any financial shocks or, importantly, any expected or unexpected care needs in their old age.

But it is important to recognise that older people are not a homogenous group, covering people who are comfortably retired with adequate retirement incomes, to those older people struggling to make ends meet relying mostly or exclusively on a state pension, who are vulnerable to income shocks.

This vulnerability is amplified by considerations about social and long-term care. Currently 1.8m people get state-funded social care, of which 66 per cent are older people.\textsuperscript{58} As detailed above, the Government’s personalisation agenda has empowered people to buy their own care services, with the introduction of direct payments and personal budgets. In 2012, around 450,000 people opted to budget and buy their care directly, and this is expected to increase significantly in the future.\textsuperscript{59} Other policy changes such as the upcoming reforms to care will mean that older people need increasing help and support to ensure they make the right choices.

\textsuperscript{50} G20 High Level Principles on financial consumer protection, OECD, 2011
\textsuperscript{51} OECD Principles of National Strategies, 2012
\textsuperscript{52} OECD Advancing National Strategies, 2013
\textsuperscript{53} OECD Advancing National Strategies, 2013
\textsuperscript{54} Mid-2012 Population Estimates, UK Office for National Statistics, 2013
\textsuperscript{55} Ibid
\textsuperscript{56} Pension Trends 2012, Office for National Statistics, 2012
\textsuperscript{57} ‘Retirement Choices’, ABI, 2012
\textsuperscript{58} http://www.bbc.co.uk/news/health-17868598
\textsuperscript{59} Survey by Association of Directors of Adult Social Services, 2012
**Addressing vulnerable groups**

Some respondents to our call for evidence identified a number of barriers to financial capability, particularly around more vulnerable segments of the population. As outlined in the summary of findings from our call for evidence, digital exclusion, access issues for people living in more rural areas, and financial exclusion were seen as particularly relevant by respondents. The need to address the explicit support needs of more vulnerable target groups is highlighted in many strategies from other countries.

We are doing further work to sub-segment these groups to identify those within them who have specific vulnerabilities that prevent or reduce the likelihood of them managing their money well. This will include identifying those people in need of debt advice, or likely to need debt advice, within each target group. This will allow us to consider the case to develop specific approaches for those groups with the greatest needs.

**Conclusion**

Given current pressures, it is more important than ever for people to become better able to manage their money. Evidence shows that being financially capable can have a significant positive effect – on the financial services industry, on government, on society and, crucially, for consumers, enabling them to make better decisions about their money, contributing strongly to their overall wellbeing.

New challenges have emerged since the last financial capability strategy for the UK was published in 2006. People currently have less disposable income and are at greater risk of making bad decisions based on the complexity of the financial marketplace. Coupled with this, individuals are increasingly being given more responsibility to make the financial decisions that are right for them – the introduction of universal credit, and the personalisation of social care and health care, are two examples of this trend. In these circumstances, many people don’t access the right information at the right time, don’t know where to go for help and are at risk of making poor choices about their finances.

Information and advice can play a significant role in helping people become more financially capable. However, financial capability is the combination of knowledge, skills, attitudes, motivations and opportunities that translate into sound financial decisions and appropriate use of financial services. It is therefore essential that regulatory, industry and policy responses are based on robust and up-to-date analysis of people’s financial capability and needs, and reflect what we now understand about the importance of ‘teachable moments’ and reaching people as they experience key life events.

In order to increase financial capability in the UK, co-ordination is vital. While there are many millions of people who need help with their money, there are well over two hundred organisations working in this area in the third sector alone. There is huge potential to make greater progress through a co-ordinated approach which focuses the collective efforts of the many organisations from the private, public and independent sector on shared, key priorities. The new UK
Strategy will provide the evidence needed to inform this approach and help to prioritise the needs that should be most urgently addressed, by a range of partners. We will publish the first draft of the UK Strategy for consultation in summer 2014.