tag words

Financial Education

Behavioural change

FSA

Speed Read

- It takes 20 years to make a difference in people's long term financial capability.
- Best results come from targeting trigger periods.
- The recession provides a unique opportunity.
- Information is not sufficient.
- The incentive for the industry should be rebuilding trust through education.
- Biggest challenge is people being too scared to engage.

mission of the marathon man

Over the years, CHRIS POND has collected 17 marathons – an appropriate recreation for the man confronted with the "generational challenge" of directing the national strategy for Financial Capability. He tells Anthony Thomson about his 20-year task to help the most vulnerable engage more positively with financial services.

This is something of a Herculean challenge – so what was it that attracted you to this role?

Well, it's precisely the challenge that was the first and greatest attraction. Very large numbers of people are very vulnerable to changes in their circumstances. Even back in the good times of 2005, our baseline survey tells us that 70% of people had made no provision for a change in circumstances – the arrival of a child, the loss of a job, the break-up of a marriage. All these things can throw people into severe financial difficulties with no visible means of support. So the challenge is to try to make sure more people are able to prepare themselves, budget carefully and think ahead. Hopefully, we're starting to make a difference.

And I saw it also as a natural extension of my work at the Department of Work & Pensions. I was responsible, for example, for moving literally hundreds of thousands of people off dependency on giros and pension books and into financial services with proper bank accounts. I worked towards the reform of housing benefit so people took responsibility for meeting their housing costs albeit with some local authority support. And I was involved in a programme to help people into work and off benefits altogether. The next automatic step was to tackle financial capability – the extent to which people are being expected to take responsibility for their own financial affairs but without leaving themselves and their families at risk.

THE £100M WE'RE SPENDING OVER FIVE YEARS IS A DROP IN THE OCEAN. BUT OUR INVESTMENT RUNS WITH THE GRAIN OF WHAT THE FINANCIAL SERVICE PROVIDERS ARE THEMSELVES SPENDING.

MOST INSTITUTIONS RECOGNISE THAT THIS IS WORTHWHILE. IT'S NOT GOING TO HAVE A GREAT EFFECT ON THEIR CAPITAL RATIOS, THEIR LIQUIDITY OR THEIR BOTTOM LINE. SO WE WOULD HOPE THEY'LL STEP UP TO THE PLATE.

My sense is that this is, at least, a generational change that needs to take place.

You're absolutely right. We know it's going to take 10 to 20 years to make a significant difference in people's long-term financial capability, their behaviour, their habits and their actions. But initiatives like the Workplace Programme show us that, even in the short term, you can make a significant difference to individuals' lives just by giving them a glimpse of how they can better manage their finances.

The FSA began with a five-year plan to 2010-11. Are you on track to deliver and how will you measure whether you've been successful?

We set ourselves a target to reach 10 million people over that five-year period. That's an ambitious target but we've already reached 8 million. What we've done is target people at periods in their lives when they are most in need and, indeed, most receptive to help. So, a major programme in which the teachers in half the public and private sector schools in the country are now being provided with some assistance to teach financial capability. And that's being built into the national curriculum.

Again, for parents, when a child arrives that can be very joyful. But, of course, their income is likely to drop as one partner leaves the labour force for a time – and their costs also go up. So, our Parents' Guide to Money being distributed to hundreds of thousands of parents by midwives and health visitors makes a real difference.

And, for people living through cancer, we've equipped Macmillan Cancer Care professionals with the information to guide people to help at that stage when the stress and anxiety of dealing with money worries is the last thing they need. They need to focus on getting well. If you can catch people at those different points in their lives, you can make a significant difference.

It's one thing to reach people at these critical stages, to make them aware, to provide them with written guidance. It's quite another to actually change their behaviours.

Absolutely. Providing information itself isn't enough. With kids, for instance, we have to make sure they're excited about the idea of budgeting carefully and thinking about how to achieve their aspirations and ambitions if they did things differently. Although our general Moneymadeclear website, received huge acclaim and is used by millions, we know it's not going to press the appropriate buttons for young people. So, we have a website focused just on the 16-24 year olds.

Similarly, for young people not in education, employment or training, we have a major programme working through youth workers. Same with our programmes in further and higher education – they're all carefully targeted for those age groups and are delivered through trusted intermediaries like teachers and youth workers who they know well.

But the cardinal point again is – how do you measure the evidence of behavioural changes that your work is driving?

It's absolutely critical that we do examine how the tectonic plates, if you like, of financial capability are moving over time. This work is funded by the industry, so we have a responsibility to demonstrate that it really makes a difference to peoples' lives. Our programmes are all carefully evaluated. We'll also follow up our 2006 baseline survey to see how things have moved over 5-6 years. We place great emphasis on demonstrating to ourselves and to those that are paying for this, that it does actually make a difference.

You've spent £22.7m so far, which isn't huge, particularly when you look at the amount financial services companies themselves spend. Is your budget enough? What incentive is there for the industry to put more money into this?

It's a very substantial investment. Over five years, we're talking about £100m. You can certainly make a difference with that sort of funding. But you're right, it's a drop in the ocean compared with the £1.78bn the industry spends on marketing in a year. In terms of damage limitation, it's a very small amount. Nevertheless, I'd argue that our investment runs with the grain of what the financial service providers themselves are spending.

Look, the major challenge facing the industry at the moment is a crisis of confidence and trust. Part of that is because many people feel they really don't understand financial services sufficiently to engage. During the good times, this matters less. People take it on trust that, if they invest in a pension, a mortgage or an insurance policy, it will probably be all right. But when times are hard, they're less likely to trust if they don't understand. So, by providing people with the education and understanding they need to engage in financial services, we're actually increasing the potential market for those services. But, we're not trying to sell a particular product. The consumer can feel we're very much on their side. We're independent and that's very important indeed in winning people's confidence and starting to re-build that trust.

But if consumers now trust financial services so much less, isn't this having an adverse effect on your work – they're also going to rely less on your advice about the re-arranging of their financial affairs.

In the short term that is a problem. Many will just disengage. They'll simply buy themselves a home safe and put whatever savings they have in that under the bed. But I do think it's also an opportunity for us to covert their need into a demand for guidance. We have to make sure we re-direct our programmes towards people facing redundancy or who are already unemployed; towards people approaching retirement who are now quite scared about what their savings will provide; and towards people who are going through a family breakdown. It's a rather sad opportunity, but it's one that's there at the moment.

As the recession ends, hopefully some of these issues will fade. But some of these are cultural issues. Bereavement won't cease. People making insufficient retire-ment provision won't cease. Divorce, now heading towards 50%, will continue to increase. Mean-while, State support in certain areas is declining. So, the need for what you're doing is getting greater.

Exactly. The need is there. But does that translate into a demand? I sense that, because of the recession, people are starting to recognise that they need additional help whether it's from IFAs, our MoneyMadeClear events or Citizens Advice Bureau debt advice. They are coming forward now. One of the real lessons from our research is that, if people feel out of control of their finances and, worse still, if they feel their finances are in control of them, then their overall level of psychological wellbeing is substantially reduced, their levels of anxiety and depression increase. And so, we're trying to make sure that people are able to take control, not only in these difficult times but also when times start to improve. And it's at that stage, I think, that you'll see the real value of this work.

You're physically taking this out into the community in the North-west and North-east. What's been the response to that?

It's been very encouraging. We aimed to reach between 500,000 and 750,000 people and we believe we're on target to get within the lower end of that range. We've learned a lot. There are challenges in getting people to come forward and use the service. But the independent evaluation, though it's not yet complete, is giving early indications that this is making a difference. And there will be a Ministerial decision in the very near future about whether to make this a national service.

We face two challenges right now. The biggest, I think, is that people will walk away from all this feeling that it's just too difficult to cope with; that they feel so scared by the current financial situation, they simply don't come forward for the help we can provide.

The second challenge is that the industry, which has been very supportive up to now, could also walk away. They could say: 'No, no. Our main focus has to be on rebuilding the bottom line and we're not going to engage in some of these programmes which run alongside our own initiatives to help people rebuild their financial capability'. However, I think most of the institutions recognise that this is worthwhile. It's not going to have a great effect on their capital ratios, their liquidity or indeed on their bottom line. So we would hope that they will step up to the plate.

BY PROVIDING PEOPLE WITH THE EDUCATION AND UNDERSTANDING THEY NEED TO ENGAGE IN FINANCIAL SERVICES, WE'RE INCREASING THE POTENTIAL MARKET FOR THOSE SERVICES.

Two years ago, CHRIS POND was appointed the Financial Services Authority's first Director of Financial Capability. Formerly Chief Executive for the National Council of One Parent Families, he was a Minister at the Department of Work and Pensions from 2003-05. He was part of Otto Thoresen's review into ways of ensuring greater access to high quality affordable financial advice for those most vulnerable to poor financial decision-making.