financial capability: where next?

Is financial education really the Government's responsibility or the industry's? How do we persuade consumers to manage their finances more efficiently? Is the 'sensible finance' message as much for the well-off as the vulnerable? What role can financial services providers play to make a real difference?

Knowledge is power

Malcolm Kerr, Director, Financial Services – Insurance, Ernst & Young

In November 2003, John Tiner, then Chief Executive FSA announced a Strategy for Financial Capability; "…providing consumers with the education, information and generic advice needed to make their financial decisions with confidence". A partnership of individuals and organisations was then established and a road map for delivering a step change in the financial capability of the UK population was created.

That map seems to cover a surprisingly wide area. For example the recent Issue 17 of the National Strategy for Financial Capability Newsletter makes specific reference to a number of initiatives aimed at "hard-pressed families, redundancy and unemployment, the needs of the over-40s, wellbeing, money matters for the armed services, young adults not in education, employment or training, working with offenders, supporting people with a learning disability move into independent living and training frontline housing staff to support their tenants" .

These are laudable objectives. But are they affordable? The FSA budget for the financial capability strategy is £22.7m this financial year. And that also has to cover ambitious plans for increasing financial capability via work with schools, colleges and employers.

The FSA 'Making the most of your money' seminars have involved 700 employers, 4,500 seminars and over 80,000 consumers. As a presenter I can confirm that the seminars resonate with the audiences and the feedback is positive. The key questions remain. How much has capability improved and to what effect?

Communication, information and education are improving. But motivation is more challenging – particularly in the area of savings. Research for Scottish Widows by the Institute for Fiscal Studies last year identified barriers to saving included having debts and needing to pay them off, requiring too much effort to find the best deal, lack of trust in providers, having no money available and difficulty in understanding how to go about saving. It is only this last barrier that will be addressed by the capability strategy.

Ernst & Young estimate that there are around 8 million mass market consumers who are in a position to save but do not choose to. Hopefully the 'Streamlined Advice' service that is being proposed by the ABI will enable providers to reach out to this segment. Couple this with new technology and workplace sales supported by 'Making the most of your money' seminars and we may see a whole new breed of savers.

Who really needs educating?

David Chellew, Head of Marketing, HSBC Global Asset Management

The danger with education is that it can be very patronising. It's not education people want when they buy anything, it's information.

Information is empowering. Information leads to informed choices. And it comes in many forms. Good information is clear information. It offers a new perspective on a tired and lingering problem. A solution to a need as yet unsaturated; a thirst for knowledge not yet quenched. Everyone likes information. The only

thing more treasured than knowledge is opinion. People love opinion more. There's no point having knowledge if you cannot interpret it to do something. Time is short and consumers need information fast, presented clearly and without prejudice or imbalance. To make a decision they want views – views from sources that they trust to inform and validate their own perspectives. To reassure. To adjust and to validate. Clear views make an impact in every sphere of life. They influence decision making, whatever the issue, whatever the view.

People want multiple perspectives on an issue to form their own view, not because they need to be told. Financial services is changing. The internet is a prime driver of change – the place where most people will go first to search for information on financial products. The role of advisers in consumers' minds is going through a metamorphosis as a result. Advisers ratify choices and may influence the selection of a provider. Consumers want reassurance that the decision they have made is the right one. To deliver peace of mind by imparting a view. Would education negate the need for this?

If there are things our industry gets wrong, it is that the problem that needs to be solved is education? That is really deflecting the issue from the real problem. Our inability to be clear. To provide information. To release ourselves from the fear that stops us from providing a view because the regulator might not like it. People only need to learn things if they are not obvious, easily fixed or already solved. The issue in our industry is related to the provision of information. There is too much of it and it's not right. Information merged with view that confuses rather than clarifies. Passive information and weak opinion merely masquerades as a stance.

The need for education of the customer is a failure in the system, a protection from an industry that is feared for its opacity. It is not a success. Teach my kids Mandarin at school. They'll need that. If they want a financial product, teach them how to use the web. It's our industry that needs educating not our kids. It is time for us to go back to school.

"... it was not actually terribly difficult to make money in the securities business"

Simon Philips, Managing Director, Structured Marketing Solutions

Peter Baring's statement shortly before his bank collapsed is a reminder of how the problems of financial capability exist at the highest levels of corporate management. Indeed, you could argue that the lack of financial capability demonstrated by business leaders in recent years has had a more devastating effect on the economy and society than any credit-fuelled consumer bingeing. In their hunt for profitable new business, banks developed products that went beyond the capability of clients, and their own management, to understand them. All the regulatory checks and balances were there, alongside professional qualifications and detailed legal contracts; there was even plenty of publicity given to the potential conflicts within investment banking – the research issue, the prop trading desks. It would be hard to argue that bank bosses and corporate and institutional clients were poorly equipped to understand their markets, but the events of the past two years show that professional managers are as likely as ill-informed consumers to get caught out – the difference is only one of scale and complexity. Even the motivations are the same – peer pressure, persuasive salesmen, fear of missing out.

When it comes to clients' financial capability, the underlying conflict, as always, is between the interests of the client and the interests of the bank – between championing the clients' interests over the opportunity to push more complex, high margin products. In his book "Traders, Guns & Money", Satyajit Das explains how aggressively some banks pushed structured products to corporate and institutional clients – often with little concern for a long-term relationship: ....scorched earth banking. "You take the client for everything in a single trade – you "smoke them". So much for putting clients' interests first. Is the corporate banking business such a jungle that it's always a case of 'buyer beware', that a client's lack of capability is something to be exploited, rather than improved? Surely not. Now, more than ever, there is an opportunity within corporate financial services for a 'service-led' proposition that is built on a trusted relationship.

The challenge for marketing teams – and management – is to ensure consistency of delivery. It's one thing to create great communications that stress client-centricity, quite another to see that it's delivered on a daily basis throughout an organisation. Such an approach will acknowledge and improve clients' financial capabilities, rather than take advantage of them.

Money doesn't grow on trees

Simon Morris, Partner, CMS Cameron McKenna

In a world of public ignorance and confusion, where many UK adults don't know how to find a plumber using Yellow Pages, it is to be expected that the man in the street will be financially illiterate.

The Government has decided this has to change. There is little point, after all, in tackling mis-selling by the financial services industry if people insist on mis-buying products. As the regulator and enforcer of retail financial services, it makes sense for the FSA to have been handed responsibility for raising the British public's financial awareness. It is argued, in the Thoresen Review, that the FSA has the independence and financial capability for the job. It has the industry relationships, and the mechanisms to ensure compliance and raise any necessary funding. Most of all, perhaps, it hopes to have the reputation as the protector of public interests.

That at least is the theory. In practice, the FSA has been placed in an awkward position. Its primary role is to regulate the financial markets and deliver consumer protection – it is not a natural educator. Asking product providers to assist the regulator in disseminating fairly basic consumer skills can be seen as conflicting with the FSA's policing obligations and creates negative

tension within the industry. Given the almost daily announcements of bannings, prosecutions and general criticism of financial firms, the FSA has in any case come to be perceived as a serial broadcaster of negative industry news.

As financial services providers have the most to gain (and lose of course) from a properly informed public becoming confident in their choice of product, it might be better if the industry adopted a more proactive approach to the FSA and financial capability. Senior industry figures should take the initiative and engage with the FSA on the best way for them to get financial education onto the schools' curriculum and out to the general public. Leading firms might invite secondment onto the FSA's enlightenment programme, and volunteer resources to pay for it. Perhaps the FSA should come to accept that its most useful contribution to the worthy cause of financial literacy is as official monitor of the coordinated, and one hopes altruistic, efforts of the financial services industry itself.

The challenge for marketing teams - and management - is to ensure consistency of delivery. It's one thing to create great communications that stress client-centricity, quite another to see that it's delivered on a daily basis throughout an organisation.

Simon Philips

The combined approach

Robin Willison, Director of Financial Advice and Protection, LV=

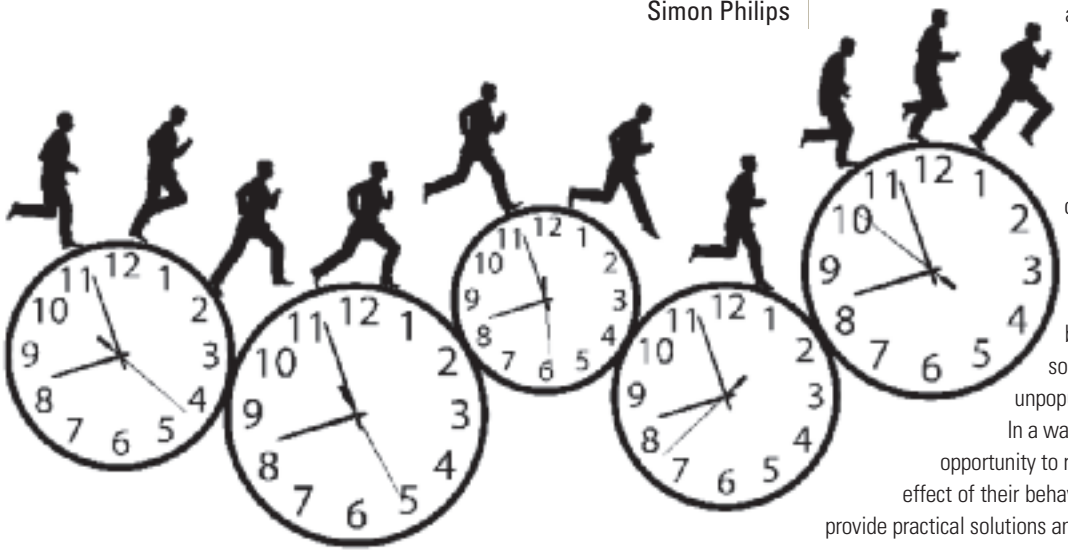
We need a combined approach between government and the financial services industry to help get the youth of today engaged and saving for their future. Learning about money and how to manage it is a life skill that naturally fits with good parenting, alongside social well-being and sexual education. The problem is we have a large section of the population who themselves have very little understanding of financial matters and the same 'buy now, live for today' attitude to life. This, combined with access to easy money, acts as little incentive to change.

A colleague recently said to me: "As a parent of teenagers, and part-time carer of university students, I'm observing a world where the system appears to incentivise the wrong behaviours. Having started their first year at university in September, my two under 20's have already managed to accrue £12,000 in debt. They haven't given any thought to how, when, or even if they will pay this back and have a 'fingers crossed' approach to next year's grant. My son, a sixth form student, instead of appreciating the privileges of his own life, envies his friends receiving their EMA (Education Maintenance Allowance) payments of £30 a week. None of them can get any part-time work. They're willing and able, but age restrictions and lack of part-time jobs are just making this impossible. When I asked 'what would make you save?' the answer was 'free stuff'!! This included electronic gadgets, music downloads, as well as extra cash for reaching savings targets. These products already exist, so even with this as an incentive there is still a lack of commitment to saving and a greater attraction to 'live for today'."

What is clear is that this approach to money is not limited to only one section of the population and we need to target a very broad generation of individuals to achieve success. The industry is now beginning to provide access to information designed to educate the right target audience. The problem is that they're not interested.

To bring about this engagement, a large part of the answer must be a combined approach between the Government and the financial services industry. In much the same way as any addiction, the dependency needs to be broken. Although there is no substitute for individuals taking personal responsibility for their behaviour, reducing the supply of easy access to money and implementing some compulsion should be given serious consider-ation. Similar to tackling obesity and binge drinking when the public don't know how, they need to be educated. This will mean taking some tough decisions that may be very unpopular in the short term.

In a way the recession presents us with a real opportunity to re-educate. People are now feeling the effect of their behaviours and now is an excellent time to provide practical solutions and tools to help.



Enabling the next generation

Mike Yardley, Group Chief Executive, Royal London

In a world where public awareness and interest in financial matters is growing, the responsibility for improving financial capability has to lie with us all. It cannot simply be left with the state and ignored by the financial services industry.

Consumers' expectations of financial institutions have increased and we need to respond to their needs, not least by recognising the widespread concerns for financial security. These concerns could be due to a lack of knowledge and understanding, something which an enhanced financial education agenda could help resolve. At Royal London, we view financial education as an area which can be integrated into our corporate responsibility programme, starting from a young age and equipping individuals with the knowledge they need.

Earlier in 2009, along with seven other mutual insurers, we took part in an initiative led by the Association of Mutual Insurers (AMI) and education specialists D2, to develop and launch www.funtosave.org. Targeting key stage 1 (four to seven year olds), this is the first free national resource designed to help primary school children learn the importance of savings and to develop healthy attitudes towards money throughout everyday life.

www.funtosave.org is the only website in the UK to take a holistic approach to savings. It not only includes games from which children can learn, it also supports activities for parents to use at home and lesson plans for teachers, which meet the national curriculum. This 'real life' approach to learning, both at home and in school, has been initiated and developed by mutual insurers working together, with input from the Financial Services Authority (FSA), Personal Finances Education Group (PFEG), HM Treasury and the Department for Children, Families and Schools (DCFS).

We have worked together to meet an important need in the financial capability strategy for the UK; that of teaching younger children about money and savings at home, at school and at an early age when attitudes are still being formed.

We believe this web-based, in school or at home, approach can help the target group in an engaging way. With increased support from other organisations and school bodies, the website can be further developed, for the benefit of the next generation of more responsible financial consumers.

Time to change the industry's approach

Stephen Ingledew, Strategy Director, Standard Life Assurance

Are the industry's initiatives really making progress when it comes to building people's understanding of personal finance? Whilst the industry has started to put the subject of financial capability higher up the agenda, with more resources going into the subject, there is no compelling evidence that the population has more confidence in managing their personal finances.

To really create a breakthrough in financial education, we need to constructively appraise why the current initiatives may not be working, for example:

Inappropriate Language – We are unlikely to make progress in engaging with people if we continue to use a language which does not fit with the lay persons speak. For example, the term 'financial capability' is not one to engender genuine public affinity to the subject.

'One Suit Fits All' – We need to move to recognise the diversity in attitudes and behaviour towards personal finance and move away from one suit fits all' approach. For example, categorising education needs based on wealth and age is simplistic at best and does not recognise people's existing experiences.

Limited Engagement – our approach needs to move away from one of 'interrupting' people's lives to one of 'engagement' on their terms. We need to understand that time is precious for most people and how best to fit education into their lifestyles, as money matters are not always top priority.

Misguided Paternalism – for some people, the industry's initiatives can come across as you are 'being done unto' rather than something we are achieving together. This 'top down' approach is perceived as aloof and does not recognise that people understand far more than the industry realises.

A new approach to financial education is now required and the solution could be built around the following principles:

Peer Experience – people want to learn from the experiences of their family or social peers, in such a way that they are not embarrassed by the challenges and questions they have about money. Supporting this social learning will have more traction with people in making personal finance more relevant.

Trusted Environment – people want to learn in their own local territory, whether that's physically or remotely using the internet. A territory where they know like minded people they trust will have similar questions and experiences.

Appropriate to Lifestyle – the subject of financial education can only be communicated effectively if it is tailored and relevant to the person's lifestyle and attitudes. This would not only make it more interesting, but more pragmatic on how it can be applied

Ultimately, the responsibility for financial education must rest with local people in their communities and the industry can learn a great deal from the many excellent money advice groups which operate in communities at ground level really making a difference today.

Now is the time for the industry to play a more supporting role at local level and move away from imposing solutions from on high.

Whose responsibility is it anyway?

Toby Denne, founder, Allium Capital

SIPP, VCT, Fixed Annuity, Variable Annuity, Offshore Bond, Onshore Bond – what's the difference? If you don't know, don't worry, the Government is worrying for you! But who's responsible for teaching the country about financial matters?

History teaches us many things. Don't burn your ships when arriving in a foreign land. Don't invade Russia in the winter and, of course avoid Greeks bearing gifts. As a nation we avoid walking under ladders and some even salute magpies. Sound advice indeed and it might be all very well, but imagine if you weren't in possession of ready information to base a decision on. Imagine if you had no prior knowledge on what was the best course of action or even where and how to start to formulate a plan? How do you know where the best place to put your hard earned savings or inheritance from Great Aunt Flo is? In the bank, under the mattress or take advice from the financial adviser sitting opposite who is, quite frankly, talking a different language?

Every year this is exactly the position millions of people in the UK find themselves in when considering their financial matters. There are just too many variables when it comes to investments, savings and financial affairs. Most people find that they haven't been brought up to understand the basics of financial wealth management and many even feel queasy at the thought of having to listen.

But just who is responsible for teaching the man in the street the very basics of financial education? Here lies one of the biggest debates of the year. A debate that might have never started had it not been for the implosion of financial markets and the ensuing credit crunch.

There are many schools of thought as to where this lack of understanding comes from and who indeed should fill the vacuum on this lack of education. A war time generation thought that it was 'vulgar' to discuss money, so why incorporate it in the school curriculum? Over the years there has been a general fog surrounding how the financial services industry operates. Indeed, many consumers haven't ever had the desire to 'lift the lid' and delve deeper into the 'advice' they have been given.

At school we are hopefully taught to read, write, add up and subtract. We are taught right from wrong and learn all manner of things. It seems strange then that not once are we taught the rudiments of saving or why a pension might be a good idea. Until such time that the basics of financial capability are brought to the wider education syllabus in the UK by the State, does the job of educating the public rest on the shoulders of the financial services world? Are these really the people we want to be providing us with solid facts and sound information as opposed to potentially offering biased sales pitches? It seems only fair that it should be very clear to our customers what it is they are buying and we should not be able to hide behind fancy terms or clauses that are easy to say but have little meaning for the recipient.

One thing I think we could all agree on is that educating society to help understand basic financial concepts will only increase in importance as time moves on. We can almost thank the implosion of the banking system in late 2008/09 for that. For the many millions that have missed out on any financial grounding ,we, as an industry, have a duty of 'care' to ensure that this ignorance ceases to form part of people's lives and must help de-mystify our industry for the good of all. Whether the industry should actually deliver the 'important' lessons, is surely a matter for further discussion.

How do we make knowledge rewarding?

Mikkel Bates, Director, Reilly Bates

I decided recently, when my son turned sixteen, to find out how financially literate he was and the answer – I'm ashamed to say, considering both his parents are financial marketeers – was not very. This got me thinking about financial literacy and comparing our levels of interest and knowledge of finance with another area of some complexity – technology. Why does technology win hands down? Is it the instant rewards one gets from mastering a new device, compared to the long-term and intangible nature of the rewards from financial knowledge?

For generations, the extended family supported each other so there was no need for personal provision. Rooted in Britain's industrial heritage, the philanthropic employer and the welfare state have meant that most people's basic needs are covered by a combined safety net of company pension, state pension and a range of welfare benefits.

Demographics and deteriorating state finances mean we can no longer take this for granted and maybe this is just what is needed to make financial planning a priority. In the US, for example, there is little in the way of a welfare safety net and, consequently, personal planning for retirement, medical care and children's education is essential and more widely discussed.

How is the industry meeting this challenge? While there are now IT systems to help relate financial planning to real life, the majority of financial providers continue to promote products and services to others within the industry, using jargon and acronyms rather than helping people understand how they can help to manage life's challenges and opportunities. Research shows that too much choice confuses people. Have you ever found yourself in the soap powder aisle at the supermarket wondering how to choose between brands? It strikes me that there are parallels when it comes to choosing savings, mortgages and investment products. No wonder people walk away!

We cannot abdicate all responsibility to teachers and the Government to make a difference, so I've embarked on what will be a long process of education with my son to ensure that he grows up understanding how the financial services and products on offer can help him to achieve his goals. Who knows, in the future he and his friends may discuss financial planning with as much zeal as they do the latest Playstation game. With luck, good planning and provision will make sure they can at least afford to have the things they want later in life, instead of struggling to manage a mountain of debt.

Harness the power of knowledge

Jacqui Brabazon, Global Head of Marketing, Philanthropy & Key Clients, The Standard Chartered Private Bank

On leaving university in the 1980s, I started my first job debt free and looked forward to making a purchase from my first salary payment. The product of the grant system and a banking family, I understood the basics of financial management.

Today the Government estimates that those starting their studies after 2006/07 will graduate with an average Student Loan debt of around £15,000, which will take an average of 11 years to repay (16 for female graduates). The implication being that a male graduate will be in debt until they are approximately 32 years of age and a female graduate 37 years.

Add to this the fact that some feel the global financial crisis was compounded by a lack of financial education and it is obvious that teaching financial management has never been more important. Before heading to college the young need to understand the principles of financial management, including how to manage debt, so that they can build a financially solid future.

Yet it is not a simple matter. The topic is dry and seems somewhat irrelevant to a youngster receiving pocket money, knowing where their next meal is coming from and with few outlays other than the occasional download from iTunes. Clearly parents have a role to play, but one can't assume that they themselves are fully equipped to do this.

So who should take responsibility? Many, including myself, would argue that the Government, through the educational system, has a greater role to play than has traditionally been the case. The younger we begin to teach financial skills, the more embedded they will become.

However, as an industry, banks need to accept that they, too, have a responsibility. Banks expect customers to make sound financial decisions, but how much effort is expended in furnishing them with the requisite skills?

Each summer The Standard Chartered Private Bank runs seminars for clients' children. One, entitled 'Tools to Build your Financial Future', is focused on equipping them to manage money. Why should a graduate, just because they are bright, understand the principles of finance, the

products available, how the economy impacts investments and how to use this knowledge to build an appropriate portfolio, to list just a few of the things they need to know?

By providing this education, we facilitate a richer conversation with our future clients, one based on trust, understanding and interest: one that enables them to make sound financial decisions.

Educating the young of today should not be considered the sole responsibility of one party. Parents, Government and banks all have a role to play. Our individual actions can make a collective difference to the future of many. However, whether or not that financial education can be expected to teach the value of money is another question, for another day!

Too little, too late?

Neil Hawkins, National Employee Communication Manager Friends Provident

We live in a world where access to financial advice has become a privilege for those who can afford it and not those low-income families who perhaps need it most. We have more students than ever leaving university saddled with record levels of student debt. In short, we seem to have lost that old saving feeling our parents passed down. This, coupled with a lack of trust in financial institutions, is nothing short of concerning. Worse still, research suggests that the most common barrier to good money management is simple inertia.

The problem has become so concerning that the Government has charged the FSA through their Financial Capability Programme to re-educate the population through a variety of initiatives. I think we all agree that the FSA's latest initiative to introduce Financial Capability into the school curriculum is the best place to start, but for those of us beyond school age, communicating through the workplace surely has to be the most viable option.

Friends Provident has been working closely with the FSA on this initiative by providing some of our communication services on a voluntary basis and by introducing some of our corporate clients to the programme. We have also delivered the programme to Friends Provident staff, achieving one of the highest levels of engagement seen to date by the FSA.

The question is, is this too little too late? Can the FSA continue to act as national providers of financial education, and is it realistic to expect the industry to support this voluntarily, especially when the new Money Guidance pathfinder pilot in the North East & North West is inviting any individual to seek guidance about any financial matter at no cost? PADA, the new body charged with delivering personal accounts, fully expects advisers to help employees with decision making around Personal Accounts – slightly puzzling given the target market for this Government based product is the people that have not made any pension provision to date and are therefore most unlikely to be able to pay fees for this advice.

Just to add to the mix, the proposed FSA Retail Distribution Review is forcing advisers away from commission towards fees but this is only likely to widen the gap between those who need advice but cannot afford it and those who can afford to pay.

So what is the solution, how do we engage young people to manage their money and stay out of debt, how do we help low income families to make the right decisions about their finances?

As you might expect, there is no easy solution. But at the heart must be something that promises to provide simple communication using mediums that the target audience use, such as ipods, Twitter, Facebook. Perhaps we can utilise some of the studies carried out in the United States on the subject of behavioural science and suggest ways to overcome inertia, by nudging people to make good decisions, or use positive herd behaviour to encourage the right behaviours. If, as an industry we can collectively frame our messages correctly to stop the ill conceived, false bravado people still seem to have maybe we can start to make logical progress. I think we can!

Most people wouldn't undertake education voluntarily. This means compulsion.

A financial makeover

Fraser Donaldson,
Principal Consultant – Investments, Defaqto

It is more than three years since the FSA laid out a roadmap for improving the financial capabilities of the public. Even in these well thought-out papers it claimed that there is no 'silver bullet', and there is no doubt it will be a slow process.

There are some fundamental obstacles to overcome, to ensure that the public are sufficiently engaged in financial matters to avoid making poor decisions and, more importantly realising that there are decisions to be made.

Let's face it, finance in its broadest sense is a pretty dull subject, so expecting people to find out more without encouragement is just wishful thinking. As a result, most peoples' experience has been that they have been sold products, sometimes inappropriately. Poor experience means that more essential products such as pensions or protection are dismissed with the rest.

A complete change in the publics' attitude to finance is required. There is no quick fix in overcoming this malaise.

The only way to pass on a basic knowledge of financial products is through education. Most would not undertake this voluntarily. This means compulsion, and the only way to make it compulsory is to introduce it in to the education system at an early age. Government have made a commitment to do this, and implementation has already started. Of course, the effectiveness of this will not be felt for many years.

The Retail Distribution Review (RDR), if not watered down too much by the time it is implemented, can go a long way to improving the publics' perception of the industry. Consumers paying for advice, not product, should eradicate mis-selling as commission earning imperatives will disappear. Professionalism will increase, in turn reducing the instances of poor advice and engendering the trust and confidence of the consumer.

The internet has begun to make the public aware of choice. Comparison websites can show that the bank or broker used historically may not be offering the best product or value for money. Most comparison websites focus on cost, and it is only relatively recently that the equally important coverage of product features and benefits are being factored in.

There is plenty of information out there on the internet, but what is lacking is understanding. While the effects of the RDR will change the perception of the Financial Services industry, and education in our schools takes effect, it is up to the industry to make easily available unbiased, generic education.

It is difficult to know how effective the providers will be in persuading the public of the benefits of the products and services they sell, no matter how unbiased their writing is. It is going to be up to independent organisations such as government and even the aforementioned comparison websites to provide clear guidance. I know we have already made good strides in this area on our own website.

Having said all this, much of the industry knowledge and expertise is based with the product providers and it would certainly be in their long-term interests to support the publication and distribution of informative and educational material, even if it doesn't carry their brand.

Pragmatism and realism must be at the forefront

Derrick Mabbott, Strategic Marketing Director, Zurich UK General Insurance and Dr Matthew Connell, Principal, Government and Industry Affairs, Zurich Global Life

Having a populace with a good appreciation of personal financial issues is obviously of value to society, and the natural question is what role the FS industry should play in securing that, versus the role of the State.

Today, this debate is of acute importance, with a desperate need for a higher savings rate, state benefits under pressure and a pensions crisis of immense social impact. The basic state pension once the centrepiece of a 'cradle to grave' welfare state is now predicted to be worth less than 10% of average salaries by 2050.

If the question is what role should the FS industry play in promoting sound personal financial planning, then pragmatism and realism must be at the forefront. There is often a perspective that the responsibility and cost of financial capability lies with the financial services sector. In practice, this is neither possible nor credible. The whole financial services sector is tarred by the current banking crisis, will be inevitably viewed as biased and self-interested and therefore cannot take sole responsibility for delivering all financial advice.

For the next decade at least, the two most urgent issues in terms of financial capability within the UK population will be the claiming of benefits by those in need, and the increase in pension provision by almost everyone. The FS industry is not set up to help on the former; it needs a partnership with government to deliver the latter.

Providing help and advice is a massive undertaking. For example, according to the National Audit office in 2004, careers guidance to young people cost £45m, required 7,700 personal advisers and more than 2,400 front line staff. A programme providing generic financial information to all UK adults would be an even bigger project, with huge diversity of need and circumstance. Many vulnerable groups do not need advice on financial 'products', but advice relating to claiming benefits, reducing expenditure and basic financial skills. Advice aimed at these vulnerable groups cannot be a diluted version of generic advice.

The basic state pension, once the centrepiece of a 'crade to grave' welfare state, is now predicted to be worth less than 10% of average salaries by 2050.

It is unrealistic for a single body to deliver this service. This requires a partnership of voluntary groups, government, industry and regulators to build a strategy within which both commercial and non-commercial organisations can develop more specialised activities based upon where they can make most difference.

If the FS industry does focus on the pensions gap, then government and regulators must play a role. Emphasising individual responsibility is key, but so is providing the regulatory confidence to the consumer that will enable responsible, professional advisers to provide the advice and support that most of us need to make the choices our whole society needs to get right.

Rebuilding for the future

Moya McGinley, Marketing Consultant

The credit crunch has brought damnation on the heads of bankers, on top of the pension and insurance scandals, branding us collectively as sharp operators, willing always to make a 'quick buck' (or huge bonus?) on the back of our customers' financial naivety. Customers previously stayed with us because of two factors – our brand strength and overwhelming financial inertia.

However, trust has been severely damaged and must be rebuilt. A key methodology is captured within the parameters of the Treating Customers Fairly (TCF) regulation. Yes, we are required to comply with TCF, but it is also a fantastic opportunity to embrace it to both customers' and ultimately, to our firms' advantage.

How so? By using the framework to create products that reflect customers' needs and then presenting them to the consumer in a clear and unambiguous way. If we demonstrate our expertise and commitment over the long term, we can anticipate and help our customers plan successfully for their future. This will build both trust and loyalty in that we, as their financial advisers, will have been seen to play a constructive role in their lives.

Deposits are a good example of where a little more of 'it does what it says on the tin' is a strong marketing strategy, incorporating the principles of TCF. Depositors want to know a couple of key things:

- The money is safe ie. not laid off with another institution in a complex structure they don't understand.
- The rate/terms are clear/unambiguous.

They seem very obvious points to make ... but the current market shows a range of complex deposit products which the vast majority of consumers don't understand. The old culture of putting everything in the small print has given way to better practice, but we still lack the confidence to commit to the full clarity that will eventually build trust in us as bankers. If we don't believe in the product, why should they?

As marketing and communication professionals, we have a fantastic opportunity to improve our record and rebuild the battered reputation of banking. Good products, well marketed, will deliver increased volumes of satisfied customers and greater profitability – a 'result' all round. Applying this approach across the product range makes it possible for us to engage with our consumers through their varying life stages and to help them manage their financial affairs more responsibly, prudently and efficiently, regardless of their financial position.

A key obstacle for financial services is the shock emanating from the failure of so many reputable institutions. Rebuilding our reputation will be possible by taking practical steps which must include creating good products which consumers can understand and communicating them in a clear and simple way so that they will want to do business with us again ... and again..

Finances under the microscope

Courtney Waterman, Senior Director, European Marketing, Janus Capital International

As the global economy moves onward from the credit crunch, many investors and consumers have been forced to take a closer look at their personal finances. Harsh realities have come to light, now that markets can no longer be relied upon to rise, and an economic recovery is far from assured. While financing a comfortable retirement has for many years been a tricky proposition, the outlook has now worsened considerably. A recent survey of European household savings and investment behaviour commissioned by asset manager Janus Capital Group shows that of those who have yet to retire, the majority (60%) believe they have not saved enough. More worryingly, almost one in six simply didn't know whether they could afford to retire. In spite of this, more than one in three hope to retire in their early sixties, while only 3% expect to have to work into their early seventies.

The survey goes on to show that nearly half of European respondents expect to receive a pension from their government, while 36% expect to receive one from their employer. Only 23% have a personal pension plan. With government finances now under extreme pressure, the prospect of vanishing public pensions seems ever more likely. Similarly, the trend in company pensions is steadily towards less, rather than more. Defined benefit pensions have almost completely given way to defined contribution pensions, and from the end-user's point of view, the latter are acutely vulnerable to the market's ups and downs.

The findings of the Janus survey highlight the need for better financial education. This need is far from new, and has only been made more acute in the wake of the credit crunch. A December 2008 study by the UK Financial Services Authority notes that nearly half (44.6%) of the overall 52 to 64-year old customer base for financial product providers in the UK have no more than the compulsory level of schooling, and only about one-in-eight are able to calculate compound interest. At the same time, higher income individuals – a group that is also more likely to be more highly educated, own their own home and have a private pension – are more likely to hold savings and investment products. The positive correlation between education and financial well-being is clear.

With government finances now under extreme pressure, the prospect of vanishing public pensions seems ever more likely.

Tough challenges ahead

Darren Stevens, Director of Customer Services, Chelsea Building Society

The watershed moment in terms of really getting to grips with the issue of financial capability was a Financial Services Authority (FSA) benchmark survey in 2006. Prior to this, financial capability was too vague a concept and it meant different things to different people.

Not wanting to denigrate efforts prior to this, there has been a virtual stampede of initiatives since, with the FSA's Money Makes Sense initiative and the Personal Finance Education Group at the forefront. I also have some admiration for smaller initiatives such as Moneywise magazines 'Kids and Cash' and West Bromwich Building Society's 'Awesum Challenge'.

At the forefront of the battle to make a step change in the growth of financial capability is education. For over a year now, personal finance education has become an explicit part of the secondary school curriculum, with new 'economic wellbeing and financial capability' programmes of study. Personal finance issues are also finding their way into mathematics and citizenship.

At the forefront of the battle to make a step change in the growth of financial capability is education.

Despite the very extensive and much more co-ordinated approach to boosting financial capability, there remains a couple of significant challenges.

Approximately one in five UK adults struggle with reading and writing. Whilst not prohibitive to taking out financial products, this does make it more difficult.

Treating Customers Fairly has intensified everybody's focus on making financial services literature, simple, clear and easy to understand. For our part, at Chelsea, this extends to testing literature for all entirely new products on potential customers. Whilst not strictly at odds with this, the sheer depth of information that we are required to provide to consumers can appear daunting (even to those who might be regarded as thoroughly financially capable). If in-depth research can back this up, just maybe an approach is required of 'less is more', where a shorter, more concise set of terms and conditions might make people more likely to read them.

A further challenge in my mind, is the almost perpetual changes in terminology, qualifying criteria and rules. I wonder how many people still think that Tessa's exist as a current product and it would be interesting to test awareness and understanding of ISA rules and allowances (most recently changed for the over 50's).

I can't help but wonder whether the debate at some point, albeit not for some years from now, will move on from financial capability to use. In other words, it is one thing people being able to use financial products; it is another to get people to take them out or for them to have the means to do so.

Financial education for all

Chris Wagstaff, Head of Investment Education, Aviva Investors

Many of us look back on the 1970s with a tinge of rose tinted affection, as an era when life was a lot simpler and certainly one where managing personal finances was rarely top of the agenda. However, much has changed during the past four decades. Today, for better or worse, most people are left to stand on their own two feet financially as many aspects of life are now devoid of previously generous corporate and state provision. Coupled with the woefully inadequate standard of financial advice imparted to the UK public, never before has knowing how to manage your own finances been such a necessary imperative.

This presents several challenges. Principal among these is getting people to focus less on the here and now and more on their financial future, in such a way that the intangibility of being poor in retirement becomes a tangible and quantifiable imperative. This is one for the financial services industry, which, to date, has had little success, not least because of ill thought out advertising that does little to encourage younger generations to start thinking about retirement provision, and the much publicised lack of trust emanating from two decades of high profile debacles and scandals. However, perhaps the greater challenge is weaning people off their somewhat unsustainable lifestyles to finance a more sustainable financial future for themselves. This is where the Government can play a role by highlighting the environmental impact of conspicuous consumption.

The other major challenge is educating the public on financial matters. To date, this has been characterised by much half-hearted tinkering around the edges, without anyone prepared to take responsibility for a full-scale holistic approach. The Government in particular, despite its education, education, education mantra, has shown little, if any, intention to introduce financial education to the national curriculum in a meaningful way.

This simply cannot be allowed to continue. Urgent corrective action is needed on the part of both the Government and the financial services industry, not least because both would ultimately benefit from a population that is prepared to take responsibility for, and is better able to provide for, its own financial future. Using a variety of media to make finance interesting, relevant and (dare I say it) fun, the Government, working with the financial services industry, needs to win the hearts and minds of tomorrow's consumers and savers by placing financial education at the centre of the national curriculum. The new schools Paying for It programme, developed by Aviva Life in conjunction with the Citizenship Foundation, which aims to connect young people with economics and finance, is a step in the right direction.

Meanwhile the financial services industry should pool its substantial resources to create a single educational body with the sole objective of educating the adult population on the nuances of better managing their money. The industry should also take a good hard look at itself if it is to regain the public's trust as, without trust, financial education won't translate into implemented decisions. Transparency and simplicity would be a good place to start.

An opportunity to engage

Karl Elliott, Marketing Director, Engage Mutual Assurance

As a provider of financial products aimed at families, Engage Mutual believes it is never too early to begin to understand money. Whilst the responsibility for ensuring that individuals have access to a basic level of financial education rests with the education system, and there is clearly more to be done by the core curriculum in this area, product providers have an important supporting role to play.

Here there is a real opportunity to engage with customers. Not only through the use of clear communi-cation to inform what products are (and are not) designed to do, but beyond this, to become trusted sources of information, and develop wider understanding among our customer communities.

The internet allows for clear, concise communication in written, video and audio formats, and can provide information from the most simple to the most complex. Alongside this, the Citizens Advice Bureau and high street providers enable access to helpful tools and information. But whatever the source of the information, there has to be both willingness and a basic level of financial literacy on the part of the consumer to enable them to take control of their financial affairs.

Embedding an understanding of money and developing positive attitudes from an early age, is critical to improving financial capability across the board. To this end, Engage Mutual worked with the Association of Mutual Insurers on the new funtosave website, designed to make learning about money and saving fun for four to seven year olds (vital early years when opinions start to form). We also work locally with 6th form students, running a free foundation course in Financial Services and Money Management.

By building on work like this, providers can play a critical role in supporting a more effective personal finance curriculum; can embrace Treating Customers Fairly as a benefit rather than a barrier to business; and can appreciate the long term value in improving the tenure and value of customers through a mutual understanding of financial products that meet a real need.

The lack of a comprehensive state-based personal finance curriculum, alongside the industry's short term approach and reluctance to play a role in subsidising the State in educating the public, are all barriers that need to be overcome. But, in an age where personal recommendation, peer group influence and word of mouth are busy creating the trusted financial services brands of the future, it may well be that those with the vision to invest in developing financial understanding and real dialogue out of clear and simple communication, will be the ultimate winners.

Seek first to understand and then you can engage

Jeff Knight, Managing Director, Tonic Marketing Solutions

Every week my two children receive a small amount of pocket money, the objective being to teach them the value of money. What I find interesting is that each child demonstrates a different attitude towards their money. One saves it relentlessly; the other has a real desire to spend. But why is this? I don't think it is because of their different genders or ages. The influences of home are the same, so perhaps the influences of their peers differ? Personally, I really believe their differing attitudes are driven by different personalities and motivations.

With this thought in mind, it dawned on me that there should be some marketing fundamentals applied to the issue of financial capability by identifying different needs, which will help make a better connection that can engage as well as inform.

Stephen Covey said "seek first to understand, then to be understood", and I believe we really need to understand much more responsibilities lie when it comes to financial capability. We are all different, with different personalities and motivations. We behave in different ways. We also have many different influences on how we think and feel, such as family, media, friends and those in the public eye. By digging deeper into consumers' conscious and subconscious, we can understand how different consumers think and feel and identify the influencing drivers behind different attitudes towards financial matters.

> By digging deeper into consumers' conscious and subconscious, we can understand how different consumers think and feel.

With a better understanding, a better connection with consumers can then be made, by not just informing, but finding ways to engage, which will help enhance understanding of financial matters. We need to build on the great work that has been undertaken so far, which has shown some interesting findings. But we need to dig deeper and ask 'why?'. We need some expert psychographic research and profiling, which will enable behavioural based segmentation to occur, rather than geo-demographic groupings. Each segment can then be targeted differently, with different messages and through the channels that make the best connection.

Only with such sophisticated profiling can we begin to really decide upon the roles of the State, financial institutions, educational establishments and families themselves. With such information, I too may have a better understanding of why one of my children saves and the other likes to spend.

Encourage action

Dudley Lusted, AXA PPP

The current economic downturn has heightened debate on responsibility for financial education; does it lie with government, employers, individuals, financial services providers or all of them?

At AXA we believe that all these stakeholders have a role to play, whilst acknowledging that ultimately it is only individuals who can act for themselves.

Nor do we underestimate the importance of the task or the consequences of failure. Already, too many people in Britain are, literally, feeling the pain of poor financial planning. According to research recently undertaken for AXA by YouGov, a fifth of 18 to 24 year-olds are turning to drink to take their minds off their financial concerns. The recession is also hitting Britain's workforce hard as 24.6 million people admit to feeling some degree of anxiety over their finances.

Crucially for employers, more than 10 million people indicate that their financial worries are adversely affecting their performance at work; 1.4 million have taken time off work in the last 12 months as they struggle to cope and 1.2 million are so anxious that they spend over four hours a day worrying about money.

With AXA's support, employers can encourage their employees' to undertake financial education activity that has real impact – activity that creates 'aha' moments where people finally realise that they have to take the plunge and do something, such as set up a pension.

We encourage this type of impactful financial education through My Budget Day – a nationwide initiative which took place in November (www.axa.co.uk/mybudgetday).

My Budget Day included a spectrum of activities aimed to jolt people from their apathy, including publicising a week-long experiment with a group of people, including an MP, trying to live on the equivalent of a state pension of just £95.25 a week – a big challenge that could become reality for those who do not change their saving habits for the better.

There are, of course, no easy answers but, unless we put the effort and resources into creating financial education initiatives that actually work, the future – sadly – will be a bleak one for far too many people.

Essential for future prosperity

Kevin Mountford,
Head of banking & credit cards,
moneysupermarket.com

Financial capability has largely been seen as a problem among the lower income classes. However, as recent history shows, there is a definite need for all consumers to gain greater access to financial education. This is not just a problem which affects the poor; many 'professional' people find themselves in financial difficulty, exacerbated by increased unemployment levels. People who had

previously considered themselves to be financially well-off are now struggling due to high levels of debt and a lack of access to credit – something they had become reliant on in the past.

We have a culture built on credit, a 'buy now pay later' mentality which has led to many consumers and banks getting into serious difficulty. Let's be clear, credit is not bad as long as it is lent responsibly and, more importantly, borrowed responsibly. Just because you have been given a line of credit, doesn't mean you have to use it. The biggest mistake many consumers have made is using credit to make ends meet, but then failing to pay off these debts before the useful life of the product or service has ended. Buying large value items on credit and funding them over a period of time makes perfect sense, but buying your weekly shopping on credit and then paying it off over several months does not, and this is where many consumers, and banks for that matter, have got it wrong.

As a nation we have become reliant on credit at the expense of savings – we need to move back towards a savings culture so we are better prepared for the unexpected. Consumer behaviour does need to change but the industry also needs to change its approach to its customers, especially around the provision of clearer product advice and education so that they truly understand the positive and potential negative impacts of products they are using. The industry needs to help customers by dumping industry jargon and talking to them in plain English so there can be no misunderstanding about what the product is about.

However, financial capability is not just about educating current customers. We need to ensure that the customers of the future are better prepared. Financial education in schools needs to be a priority, and the recent political focus upon the industry may help achieve this.

Investing in the future

Robin Bulloch, Managing Director, Branch Banking, RBS

Understanding and confidently managing money is a crucial life skill for everyone. However, in the UK, 90% of adults have had no formal education on how to manage their money, while 800,000 school leavers think an ISA is an iPod accessory!

RBS group aims to address these issues and increase financial capability so that people have the skills and knowledge required to manage their money. Our financial education activities are built around our MoneySense programme, which has been running for 15 years. It is now the largest free and impartial financial education programme of its kind in the UK. MoneySense for Schools has provided financial education resources to over 60% of secondary schools, whilst the in-branch MoneySense for Adults service has helped over 19,000 customers to manage their money more effectively. MoneySense aims to ensure that an ever increasing number of young people and adults are able to make informed decisions.

We take our role in developing the financial capability of people in the communities we serve very seriously. Our business is centred on helping people and businesses with their finances, so it makes perfect sense for us to work with others to invest in educating people to understand and manage their money better. It is our strong belief that supporting the development of informed and financially capable consumers will bring benefits for individuals and banks alike. As such, we work closely with independent third parties such as The Consumer Credit Counselling Service (CCCS) who support the training provided to our MoneySense Advisers. Our MoneySense website also has links to tools provided by the FSA. See www.natwest.com/moneysense.

We believe our investment in financial education will help to make our communities stronger and the consumers of today and tomorrow better equipped to navigate an ever more complex financial world.

Dont forget about the bomb

Michelle Cracknell, Strategy Director, Skandia

There is a demographic time bomb about to go off. In 1950, there were four people of working age for every one pensioner. Today, the figure is 2.7 and that number is expected to fall to 1.1 by 2050. The Government faces a dramatic increase in the cost of paying state pensions even with the planned increase in the retirement age.

The Pension Commission outlined the main challenges facing UK pension provision. The report suggests that either taxes will have to rise or people will have to work longer, save more or face old age poverty. This resulted in the proposal to introduce Personal Accounts in 2012 when Employers will have to automatically enrol staff over the age of 21 into a pension scheme, unless workers specifically opt out. This is a step closer to compulsory pensions saving. But is it enough? And is it the right way of tackling the problems?

The danger with compulsion is that it does not get people to engage. There is therefore a danger that, whilst Personal Accounts will increase the people saving towards retirement, the level of savings will not be enough and, because auto-enrolment does not create engagement, there will still be many people with inadequate pensions.

So how do you create engagement? Make it exciting or make it easy. And, that is why financial education is required.

We did some research with Generation Y in order that we had a better understanding of how to attract our future investors. Gen Yers feel that they are lacking in knowledge on finance and financial products alike. Our findings suggest that this generation feel they have missed out on financial education and believe that it should be taught within the education system. Many of the people we spoke to resent the fact that they have not been taught the basics of finance and savings with respondents saying they probably would not have the financial problems they face today had they known more. How can we give them a substantial student loan at the age of 18 without equipping them with the basic financial education that will allow them to manage the debt and eventually pay it off?

Currently there is a distinct lack of financial education within schools in the United Kingdom. As one participant said: "Financial education should be mandatory like sex education, the consequences of not being educated are just as dire." Lack of financial education is one of the biggest barriers to speaking and getting our future investors to engage with their finances. Educate to defuse the bomb!

Filling the vacuum

David Rodney, Head of Marketing, Stroud & Swindon Building Society

"Annual income twenty pounds, annual expenditure nineteen nineteen six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery." Wilkins Micawber, from 'David Copperfield'.

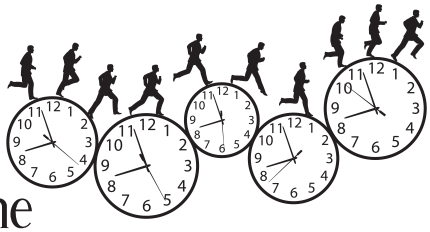
We can only speak from personal experience when it comes to finance, and that very much depends on the attitudes and behaviours of our parents and the conventions of the day. As a child, growing up in the 1960s and 70s, I was very aware of my parents' attitude to money because their beliefs were formed during the lean war years and fashioned through the harsh rationing of the late 40s and early 50s.

Historically, many generations of children have learned the basics of financial education through their parents, but the challenges today's children face are significantly different and many parents lack the basic knowledge to help because they do not understand the fundamentals. If parents cannot take accountability for their children, it is vital that the government and schools take action to fill the vacuum. Unfortunately, the school curriculum devotes a paltry amount of time to this subject because of the myriad of other challenges around GCSEs and other tests.

So, if we agree that it's important that young people understand the value of money, then the financial services industry also needs to get engaged. The inertia that has epitomised our engagement with financial services needs to be addressed and financial services firms need to realise that today's schoolchildren are tomorrow's consumers. RBS has taken a lead and the bigger FS brands have greater reach, and CSR budgets to match, to support their objectives, but smaller players can also make a difference.

Since we are a local building society, Stroud & Swindon has tried to do our bit in the community. By building the links with local schools, we seek to grow relationships with these schools so that our branch managers can work with them to provide some form of financial education. Some of our branches have been very successful in forming links with a primary school where the local staff go in every week to accept deposits from children in a specially constructed 'school branch'. The idea of helping children to understand the long-term value of saving is sound.

We have also tried to engage schools in our local community by offering affinity accounts to each school in partnership with the PTA (Parent Teacher Association). For every £1,000 invested in the account, we pay 1% of the balances to the PTA which enables them to buy equipment for the school. Hardly a panacea, but a start.



The idea of helping children to understand the long term value of saving is sound.

A new way of thinking

Katherine Lamb, Co-Founder, Ruby Sky Consulting

As an experienced marketing professional, I'm sure you often get asked for a marketing opinion. So imagine a friend or colleague comes to you with the following conundrum. He/she runs a business that sells a boring but worthy technical product that many people buy, but a certain group of consumers is hardly buying at all, and when they do they often manage to mis-handle the product, sometimes even causing themselves harm. On top of this, many consumers don't trust the organisation your friend runs.

Would your advice to your friend be 'I think it's the Government's job to make these people realise they need your products'? Really? Firstly, what makes you think consumers will be any more disposed to buy your friend's products just because the Government tells them it's a good idea? Secondly, isn't the bigger issue the fact that your friend's products just may not be right for this audience and some product innovation is required?

This is where it seems to me a key flaw in the FSA's Financial Capability initiative lies. Whilst well meaning and useful, as far as an education campaign can be, it doesn't address the fundamental issue that large sections of the population may still decide not to save, insure or financially plan for the future just because the jargon is explained to them, unless the products themselves become more user-friendly for this audience. The audience in question here may be young or old but tends to be disadvantaged in some way, either by a lack of education, continuous employment or a lack of family support and experience in financial planning. In many ways, in fact they resemble the characteristics of buyers of micro-finance products in developing countries. These buyers thought financial products were something for rich people, they didn't understand how they might help them, they mistrusted banks and worse still they sometimes had substantial debts (courtesy of loan sharks etc) that they couldn't find a way out of. Sound familiar?

Micro-finance has an established business case built up over the last 30 years. A recent study on the sector found that savings accounts outnumbered loans by 4 to 1 and that this didn't alter much by region. Micro-finance has often tended to be targeted at women because of consistent evidence that women are less likely to default, and delinquency rates are low with around 0.3% of loans being written off. One of the reasons default rates are low is because a structure of group lending is used, where a loan is made to a group of people. If one person defaults, the group has to make up the shortfall and there tend to be sufficient social pressures to ensure this doesn't happen. More importantly, from a mainstream bank's perspective, micro-finance has been proven to make a commercial return. So micro-finance can make money, and could well be a relevant product innovation needed by the consumers which the financial capability initiative seeks to reach. But perhaps one of the biggest benefits to any bank willing to seize this opportunity and adapt it for the UK, is the amount of goodwill and genuine community partnership that is likely to come out of such a venture which could go a long way towards restoring the public's faith in our financial institutions.