tag words

Comparisons
Financial literacy
Trust

An ugly cocktail for consumers

Lack of financial literacy, low levels of trust in financial services and ignorance about where to get advice and what to ask for, have all combined to make today's consumers feel lost when it comes to making financial decisions. TODD DAVIS of YouGov confirms that surveys reflect this situation.

More than one-in-ten people are counting on Father Christmas to grant them financial independence. Fully a third of people expect to improve their financial situation by winning the lottery.

These findings, taken from a survey YouGov did for NS&I and Financial Planning Week, show there are a lot of people whose parents never let them in on a big secret, and many more who can't wrap their head around what a one-in-76-million chance of winning EuroMillions really means. What they really tell us, however, is how helpless many people feel when it comes to planning for their financial future.

Government and the financial services industry have known for a long time that progress was necessary to get more people better advice. So where do we stand at the moment? The same survey for NS&I and Financial Planning Week showed that the percentage of people with clearly defined financial priorities and an appropriate plan in place shrank from 85% in 2008 to 69% in 2009 and 60% in 2010. In fact, 26% of respondents could not think of any benefits to financial planning and advice.

Results from YouGov ComparisonCheck, which tracks consumers' use of comparison sites, show an increasing number of users making more decisions without the benefit of advice than they did a year earlier (48% of respondents in the most recent wave). This shows, worryingly, that consumers view the information they receive from comparison sites as advice at the same time.

The factors contributing to this situation combine to make an ugly cocktail. It begins with an overall understanding of financial services products or what is commonly referred to as 'financial literacy'. Recently we asked our YouGov panel of IFAs to rate the financial literacy of their clients and the average score

was 5 out of 10 – it can be argued that people with financial advisers are more financially clued up to start with. We can add to these low levels of financial knowledge the distrust of financial services companies that many people express.

The low levels of trust, indeed a low regard in general, with which consumers view financial services brands is nothing new and likely never to fully disappear. The brand tracking work we do shows us that the financial services sector keeps company with utilities and long-haul airline brands at the bottom of the table in terms of reputation.

When it comes to where advice is available to consumers, the next disappointing piece of news is embodied in the scores given to each potential source of advice. On a ten point scale (10 being the highest quality of advice) no one source scores better than 7.5. The good news is that independent financial advisers have the second highest score at 7.4. Unfortunately the one form of advice that most people have traditionally counted on – and probably feel they have the easiest access to, namely a representative of a bank, has the second lowest score, 6.2. And bank representatives were actually the most used source of advice (48% of respondents).

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So where does this leave us . . . ?

The very comparison sites that we earlier cited as a source of concern may be enabling consumers to demand more information and advice. A full 60% of respondents on the ComparisonCheck surveys say they are doing more research into financial services products than they were a year ago. We can assume that this is creating a more diligent financial services shopper, a shopper that is capable of recognising when they have reached their own limits of understanding and are willing to seek professional advice. One barrier to seeking advice has often been the fact that consumers are so uninformed about products that they do not even know what questions to ask and therefore avoid the advice route out of fear or embarrassment.

The *Financial Planning Week* survey also asked consumers if they were in favour of compulsory pension contributions over and above funding for the state pension and 49% said yes. Depending on how the National Employment Savings Trust takes off we could also see a new group of consumers confronting decisions they have not faced before. How many of these people will be blindly content to have their money invested in a default fund and how many will start asking questions that will lead them towards professional advice?

It is too soon to know whether more financial services consumers will evolve into a more informed and advice-seeking group or not, but it will be interesting to watch.

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