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SPEED READ

- People worry about their financial futures
- 70% of the UK will not have enough money
- Social class is key part of the problem
- Technological divide compounding issues



IT'S ALL IN THE MIND

Success will follow the brands that take financial education seriously, advises ADÈLE GRITTEN. The research highlights how much help young people need to improve their control of their finances.

Unsurprisingly, the population at large continues to worry about the economy. From the daily doom and gloom about the euro, double-dip recession, talk of the lost decade and the lost generation of NEATS (1 in 5 under-25s are unemployed), most people remain scared about their financial futures, whether young or old, rich or poor.

To compound such pessimism, we are a financially illiterate nation. The UK has the highest levels of per capita personal debt of any country in the G20, compounded by a decade of largely hedonistic financial behaviour amongst consumers, reckless lending by many retail banks and building societies, and irresponsible risk-taking on the capital markets.

The emperor's new clothing saw us accepting the dawn of a society predicated on debt rather than credit. We became blinkered into believing that house prices could only go up, that wages would continue to rise indefinitely and that the debt would somehow turn into credit thanks to good fortunes expected further along the line.

Herein lies a significant paradox for the financial services industry. People are increasingly required to make ever

more far-reaching and long-term financial decisions (e.g. retirement planning) in an ever more uncertain and here-and-now world. From YouGov's monthly State of the Nation survey amongst a 2,000 nationally representative sample, consistently 70% are worried that they will not have enough money to live comfortably.

THE UK HAS THE HIGHEST LEVELS OF PER CAPITA PERSONAL DEBT OF ANY COUNTRY IN THE G20.

SKILL SET

This is surely where financial literacy must more formally move a notch up the agenda. Whatever one's situation - retired, approaching retirement, with children at university or a young family to support; single, married, divorced; mortgage or rent to pay; credit card debts to clear - everybody needs to seriously think about personal finance.

Financial literacy is usually described as the set of skills and knowledge that allows an individual to make informed

and effective decisions through their understanding of finances, yet too few people seem able to understand mortgage interest rates, compound interest, hire purchase agreements, APR and interest rates and percentages more generally.

STARTLING HEADLINES

YouGov's May 2012 research into the financial literacy of the nation revealed some startling headlines.

In particular, we discovered that 18-24 year-olds were least likely to understand financial literature. Half of UK adults - 50% - modestly rated themselves as having some understanding of financial products and services, while 15% said they have a 'very good' understanding.

A minority of just 5% admitted to having 'no understanding'. However, when asked to rate their understanding of financial product literature on a scale of 0-10, young adults rated themselves as the least well-informed consumers, with just 8% of 18-24 year-olds claiming to have a high understanding, compared to at least 20% of older age groups. Among 18-34 year-olds, 45% said they have 'some' or a 'good understanding' of financial products and services, compared with at least 65% of older age groups. ►



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18-24s are least likely to understand financial literature.

Women are more likely to seek advice than men.

Just **8%** of 18-24 year olds claimed to have a high understanding of financial products, compared with at least **20%** of older age groups.

Half of UK adults (**51%**) consult a consumer advice website before buying a new financial product.

Under 35s are the most likely to turn to friends or family for an explanation compared with older age groups.

73% of socioeconomic group ABC1s said they had some or a very good understanding of financial products and services.

YOUNGOV'S MAY 2012 RESEARCH INTO THE FINANCIAL LITERACY OF THE NATION REVEALED SOME STARTLING HEADLINES.

Social class, gender and age also play a key part in consumer understanding of financial products. Among socioeconomic group ABC1s, 73% said they had some or a very good understanding of financial products and services, compared with just 54% for C2DEs; 72% of men claimed a very good understanding, compared with 58% of women.

Our research also revealed the most important sources of information for making a decision over the purchase of financial products, with online sources emerging as a clear leader. Half of UK adults (51%) consult a consumer advice website before buying a new financial product and 43% will read the Key Facts document (48% of men compared with 39% of women) before making a decision, while 41% will take advice from family and friends.

IN THE CLASSROOM

Women emerge as more likely to seek advice from family and friends than men (48% v 33%), as do younger audiences. In particular, anecdotal evidence from recent qualitative research YouGov has undertaken into pensions highlighted how young women in particular rely on general financial advice from their fathers.

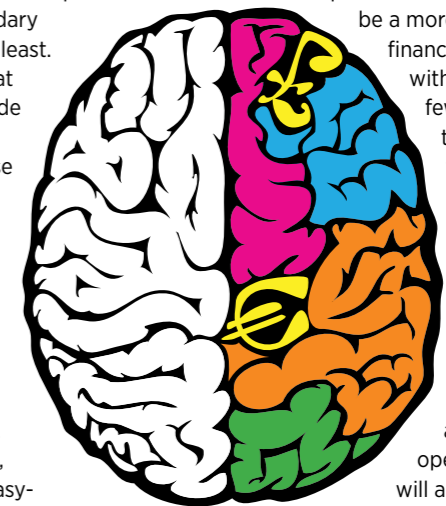
Surprisingly, almost one in ten (9%) consumers does not seek advice from family or friends, read documentation or speak to an adviser before purchase.

Online sources also emerge as the first port of call for consumers who don't understand a term used in documentation for a financial product, with the majority (58%) turning to the internet. Once again, gender plays a part, with men more likely to do this than women (64% compared with 53%). Furthermore, the under 35s are the most likely to turn to friends or family for an explanation compared to older age groups.

It is clear that a wider education programme is needed within our schools, colleges and universities to educate younger people better about personal finance. Even amongst the numerate,

evidence shows that many have no idea what basic financial terms mean. Bodies such as PFEG and the APPG are starting to play a more prominent role in ensuring that personal finance is part and parcel of primary and secondary education at the very least.

It is also evident that the technological divide is compounding the class divide, with those who have access to financial information online able to feel more informed, empowered and in charge of their financial decision-making overall. Comparison websites, money-saving forums, freely available and easy-



to-use budget planning software as well as other trusted sources of advice such as the Money Advice Service are all playing a crucial part in debunking myths, demystifying complex industry terminology and jargon and, ultimately, helping to put consumers more and more in control of their household finances. Moreover, it will be interesting to see how the role of financial literacy plays out in a post RDR era. Will the outcome be a more pronounced

financial literacy divide, with only the privileged few able and prepared to pay for advice, thus capitalising on exclusive rates, deals and opportunities, or will it mean a more enhanced level playing field for the mass market where more honest, transparent and clear advice is increasingly open to all? Employers will also be a key source of advice post auto-enrolment

EMPLOYERS WILL BE A KEY SOURCE OF ADVICE POST AUTO-ENROLMENT AS THEY LEAD THE CHARGE IN EMPOWERING THEIR WORKFORCE TO PLAN FOR THE LONG TERM.

as, increasingly, they lead the charge in empowering their workforce to plan for the long term. As for financial services brands, the ones really focusing on customer-centricity, i.e. that seek demonstrable empathy with the individual needs and life stages of customers, the brands that understand the customer journey not only at the product/transactional level but also at the level of financial literacy, will be the winners of tomorrow. ■

THE KNOWLEDGE CENTRE

Additional articles and event presentations are available online via www.thesforum.co.uk/knowledge including:

60 Seconds on financial capability:

Is financial education really the Government's responsibility or that the industry? 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? Various industry professionals provide their thoughts.

The Future of Retirement: The power of HSBC's The Future of Retirement programme is a world-leading independent study into global retirement trends. The programme provides authoritative insights into the key issues associated with ageing populations and increasing life expectancy around the world.