Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

Financial Services Consumer Panel research report: Understanding Financial Needs

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Financial Services Consumer Panel
25 The North Colonnade
Canary Wharf
London
E14 5HS

Tel: +44 (0) 20 7066 9346
Fax: +44 (0) 20 7066 9711
Email: **enquiries@fs-cp.org.uk**
Website: **www.fs-cp.org.uk**

Foreword

The Financial Services Consumer Panel is pleased to publish this research report on consumers' understanding of their financial needs. Our job is to represent the interests of consumers to the Financial Services Authority, and we rely heavily on research among the public to find out about people's views and experiences of the retail financial world.

The aim of this project was to discover more about how people of working age see their own needs for financial services, how much they plan and budget, and how well they understand the options open to them. The research is based on depth interviews with 44 men and women. Earlier this year we published other research, based on discussion groups, on consumers' use of financial services, their problems and their opinions on what should change[1]. Taken together, we think these reports provide a valuable window on how people see the financial world and their relationship with it.

There is a companion volume containing further analysis and description of ten case studies of respondents whose circumstances were studied more closely.

We are grateful to the people who took part in the depth interviews. We will use the information they gave us to help bring the consumer voice into the discussions on the future regulation of retail financial services.

Colin Brown
Chairman

[1] 'Consumer concerns in Great Britain' and 'Consumer concerns in Northern Ireland'

Research Report: Consumer understanding of financial needs

Submitted to

Financial Services Consumer Panel

Prepared by

Hanya Dezyk & Emma Slater
ORC International

ORC INTERNATIONAL

Angel Corner House
1 Islington High Street
London N1 9AH
www.orc.co.uk
Tel. 020 7675 1044
Fax. 020 7675 1903
Email hanya.dezyk@orc.co.uk

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1. Key Findings

The results of this wide ranging study have provided considerable and often new insight into not only the way that consumers manage their own financial situations but also their overall understanding and interpretation of the financial world around them.

1.1. Understanding financial needs

It is clear that few consumers are identifying or prioritising specific financial goals as part of an overall financial planning process. There is little formal process consumers go through to identify what their individual financial goals should be, how to prioritise these goals, and how they could be achieved.

Overall, there appears to be very little genuine long-term planning or budgeting. On an on-going basis, subsistence issues are generally given the highest priority, with paying the rent or mortgage seen as the most important expense by most. Individuals with debts, particularly credit card debts, do not necessarily always pay these off as quickly as they could.

1.2. Understanding products

Some continue to be unclear as to the type of financial products they actually have and there is also confusion and misunderstanding as to what financial products are suitable and whether consumers have chosen the 'best' products for their situation.

There is clearly a general misunderstanding of the so-called more 'sophisticated' financial products. Although many seem able to identify which products could be 'risky', they do not appear to understand why this is the case. In particular, many do not understand which products are linked to the stock market, and what the term 'equity' means. At the most basic level, there is some understanding that capital could be lost, or conversely that money could be made with 'risky' products. Equity-based products are not perceived to be relevant to their financial situation, and most do not plan to look into these products further, classifying themselves as risk-averse.

1.3. Life-stage triggers

Across most life-stages and across a range of income/debt levels, there is considerable evidence of reactive rather than pro-active financial movement at the time of life stage changing events. There does not appear to be much forward planning, and if adjustments are made, they are generally made after the event.

In fact, the only life stage individuals appear to actively plan for financially is buying or moving house, often by saving for a deposit or making plans for obtaining home loans. The flurry of financial activity and purchase of financial products at this stage, is often triggered by advice from a financial adviser and also often includes products peripheral to the purchase of the home.

1.4. Prioritising needs

Many consumers have good intentions regarding the improvement of their future financial situation, and would like to think that when (or if) they have some extra money they will:

- Plan to save more in the short-term
- Plan to start a pension/take out life assurance to cover themselves for the longer-term

However, there does not appear to be any real understanding of the most beneficial route for any such additional funds or income. There is little mention of capital, other than money 'for a rainy day', and fewer mentions of how capital may be accumulated in the future. Nevertheless, many feel confident about how they manage their money in the short term, they feel in control of their finances, and are quite content that they are doing the right thing.

Protection for the family is often a secondary priority; many do take out life assurance with their mortgages, however this is often the only evidence of protection products (other than general insurance). Those with children do feel protection is important, but with more pressing demands on income, this often takes a back seat.

Although saving for retirement is often deemed the lowest priority amongst the wide range of other financial needs, many do have pensions, and there exists a feeling that a pension 'is the right thing to do' amongst those who don't. Pensions are seen as the main vehicle for securing 'long- term' future financial income. However, many consumers are also sceptical as to their current performance and they are often the first to be frozen when the contributions become unaffordable.

1.5. Money management

The continuing balancing act between income and debts amongst lower and middle income consumers impacts directly on the level or in some cases relative lack of financial decision making amongst some groups. For some, overdrafts and credit cards are often used to manage over-spending or extraordinary expenses, whilst also putting funds aside whenever possible, usually to bolster a 'pot' of accessible savings.

As the amount of available cash increases, respondents were more likely to put this towards a short-term need, but generally there is less and less evidence that consumers pigeon hole their funds by type of goal such as short term, medium/longer term or emergency funds. More likely a 'pot' of accessible savings is developed, which is multi-functional, while some short term or emergency needs are answered by using available credit (including credit agreements, overdraft or credit cards) or available cash from the current account.

1.6. Financial advice

When looking for advice, most will turn first to friends and family for informal financial advice; many take out products they have heard of, or ‘feel they should have’. The next step to finding advice is to visit the bank, or to speak to a direct/home agent or financial adviser. Perhaps surprisingly, those with higher debt levels are less likely to seek any financial advice to help manage repayments – while there is little mention of debt counselling through the Citizen’s Advice Bureau, most feel it is their own responsibility to resolve this situation.

2. Introduction

The Financial Services Consumer Panel is an independent body established by the Financial Services Authority (FSA) under the Financial Services and Markets Act 2000 to represent the interests of consumers.

The Consumer Panel has highlighted a number of concerns relating to the importance of the availability of access to financial planning advice for consumers. A number of issues have brought this to the fore, including:

- The shift from the state and employers taking financial risks to the individual being responsible for financial planning, especially for retirement income
- The increase in over-indebtedness.

While the mass market of consumers do not currently access financial advice, the Treasury plan to introduce a range of equity based 'stakeholder' products[2], which will be designed to be sold without the need for regulated advice.

These products are aimed at consumers who are low and middle-income earners. The Treasury Financial Secretary, Ruth Kelly said: "These products will be simple, low cost and risk controlled. They are aimed at the millions of people who find financial services and products confusing, people who have the ability to save but aren't currently doing so and consumers who are not attracted to, or best served by complicated products."[1]

There has been some debate in the financial services arena as to the suitability of these products to their target market:

- Equity linked savings products may not be suitable for shorter term financial needs
- Those with dependants may need to focus on protection
- Those with debts may be better paying them off first

With the concern that consumers may not be able to identify their own financial needs the Panel have put forward proposals, which would allow access to free financial planning advice, in particular:

- Debt management
- Eligibility for tax credits and state benefits
- Financial products suitable for their needs

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[2] See 'Proposed Product Specifications for 'Sandler' Stakeholder Products, 05/02/03 on the Treasury website, www.hm-treasure.gov.uk

The Consumer Panel commissioned qualitative research from ORC International in order to understand consumer perceptions and attitudes to financial needs. The purpose of this research is both to inform the Consumer Panel of the extent to which consumers can identify their financial needs, and also input into the debate on the provision of general financial planning advice.

Key findings from the qualitative research are detailed below, focusing on the following areas:

- Consumer understanding of financial management and equity-based financial products
- How consumers address their financial needs
- Use of, and attitudes towards, financial advice

3. <u>Methodology</u>

Qualitative research is intended to understand *why* consumers behave as they do and not to measure *how many* consumers are doing what.

A total of 44 one-to-one in-depth interviews were conducted during December 2002 and January 2003 amongst consumers, aged 20-65. The interviews followed a semi-structured format – please see the discussion guide (Appendix G) for further details.

Quotas were based on life stage income levels and debt levels as follows:

Life stage:
- Young singles
- Pre-family
- Pre-school children
- At-school dependants
- No dependents

Income:
- Low income (annual household income of less than £15,000)
- Middle income (annual household income of between £15,000 and £30,000).

Debt levels:
- Low Debt
- High Debt

Debt levels were reached following a screening process incorporating attitudinal statements and actual financial products held. Please see the copy of the recruitment guide (Appendix F) for definitions of debt levels.

Interviews were also conducted amongst unemployed and self-employed respondents.

Full details on quota groups and sample composition are given in Appendix A.

4. Consumer understanding of financial management and equity-based financial products.

This section discusses the extent to which consumers understand and can identify different financial needs, and the vehicles they see as appropriate to meet these needs. It also looks at consumer understanding of the risk attached to certain financial products.

4.1. Understanding financial needs

The following sub-sections deal with several specified financial needs[3] in turn. Respondents were asked what they understood by each phrase and how they had approached or would approach meeting this need. Following this exercise, respondents indicated, using show cards (see Appendix D), what financial products they felt would be appropriate to someone who was trying to fulfil a specified need.

For ease of analysis, FSA definitions of what each financial need should entail have been provided, although these were not shown to respondents specifically.

a) 'Planning your budget'

Consumer understanding:
Almost all respondents understood 'planning your budget' to mean being aware of how much money is coming in to their account/household each month, and how much is going out. Some respondents also saw this as sorting out their priorities as to what was paid first.

"Basically managing the total income…what comes in and what is going out"
(At school dependants, High debt/ Low income)

The way that individuals approached planning their budget was related to how formally they managed their money (as discussed in the first section); some respondents would keep a note of all their in-comings and out-goings and others would keep a mental note. However, little mention was made of how respondents actually *planned* their budget, and instead understanding was more focussed on keeping track of income.

FSA definitions:
- Trying to spend no more than your income, including debt repayments.
- Knowing where your money goes
- Releasing money to help you realise your goals.

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[3] Financial needs were chosen and defined by the FSA, based on the information in their Financial Planning Tool. For more information, please see the FSA website, www.fsa.gov.uk

b) **'Sorting out your borrowing'**

Consumer understanding:
Generally, respondents saw 'sorting out your borrowing' as referring to the paying off of debts by meeting repayments, or not getting into debt in the first place. A few respondents did mention that this could mean consolidating debts.

The way that individuals would meet this need differed. Some saw the best way to tackle their borrowing would be to plan their budgets better, whereas others felt that *'paying a bit off each week'* was sufficient. One respondent mentioned using their credit card to pay off their overdraft.

A few of the younger respondents on a middle income mentioned that they would keep an eye on their mortgage, and that perhaps a good way of 'sorting out your borrowing' would be to *'get a better deal on your mortgage.'*

FSA definitions:

- Pay off debts altogether
- Borrow cheaply

c) 'Building an emergency fund'

Consumer understanding:
'Building an emergency fund' was seen as relating to a 'pot of money' that can be accessed immediately to *'cope with whatever crops up'.* Different people defined 'an emergency' in different ways, but it generally covered events such as the car breaking down, losing your job and other *'unforeseen circumstances'.* The way consumers would approach building an emergency fund was the same as they would approach saving for a short-term goal, i.e. putting money aside into a savings account.

Appropriate products:
In addition to a savings account, other appropriate methods mentioned were using a credit card or using longer-term savings.
Overall the following products, starting with those products most mentioned, were seen to be appropriate:

- Savings account
- Cash ISA
- Accident sickness
- Critical illness cover
- Whole of life insurance
- Personal pensions/stakeholder pensions

Choices of appropriate products did not vary greatly between high and low debt categories. However, some of the high debt respondents also felt that stocks and shares would be appropriate to meet this need.

FSA definitions:

- Have some money you can draw on in a crisis, e.g. car/home repairs.

d) ‘Saving for a short term goal’

Consumer understanding:
‘Saving’ was often transposed for ‘paying for’ a short term goal by respondents, and could include arranging some kind of credit agreement with a store. For others this term was seen as referring to regular saving for something in particular, usually a holiday.

“Putting x amount away per week until you’ve got the amount you need” (Low income/low debt, at school dependants)

Some individuals saw this need as relating to saving when possible to cover any expensive months - almost as a form of protection against falling into debt.

The methods chosen to reach this goal, reflected the way respondents choose to save in general, for example putting money into a savings account if there is any extra at the end of the month, or working overtime in order to meet the extra income need. However a few did mention that in order to meet a short-term saving goal, they may cash in some of their investment products.

“If it’s a short-term goal, it would usually be something additional…I would seek extra work in order to increase my income to cover it” (At-school dependants, High debt/ Low income)

Appropriate products:
Not surprisingly, almost all respondents felt that a savings account would be an appropriate product to meet this need. Overall the following products, starting with those products most mentioned, were seen to be appropriate:

- Savings account
- Cash ISA
- Stocks and shares
- Accident and sickness cover
- Income protection insurance
- Critical illness cover

More low debt respondents felt the Cash ISA was an appropriate vehicle, whereas stocks and shares were chosen by more of the high debtors. Respondents with children were more inclined to choose one or all of the protection products as appropriate.

FSA definitions:

- Build up a lump sum over a fairly short period of time - from one to five years, say - often to pay for a specific project, for example, a wedding, holiday, deposit for a house or new car purchase.

e) ‘Protecting your living standards/those of your dependants’

Consumer understanding:
This term created a much more varied range of definitions amongst respondents than other categories. The initial reaction from many individuals was that it referred simply to a person’s ability to pay the rent/mortgage and the bills, and there was little reference to the ‘protection’ part of this term.

“I’ve got living standards, yeah.” (Pre-family, Low debt/ Low income)

“Making sure I have a roof over my head and having enough money for food.” (Young Single, High debt/ Low income)

As such, many respondents would meet this need by working, or by saving money in a separate savings account.

However a few did see this as protecting their current level of income in case someone they depended on died, and recognised that an insurance policy was probably the best way to achieve this.

“Take out permanent health insurance or life insurance, so that if something happens to me, being the only provider in the house, that our living standards don’t deteriorate if I can’t work” (At-school dependants, Low debt/ Middle income)

“Have contents and buildings insurance, that sort of thing” (Pre-school children, Low debt/ Middle income)

Appropriate products:
Overall the following products, starting with those products most mentioned, were seen to be appropriate:

- Savings account
- Income protection insurance
- Whole of life insurance
- Accident sickness
- Critical illness cover

More low debt respondents felt a savings account was an appropriate product to protect their living standards, whereas the high debtors were more likely to choose protection products such as critical illness cover.

FSA definitions:

- Make sure you have enough to live on if you are unable to work for a long period of time due to illness or disability.
- Make sure you have enough to live on if you lose your job.
- Make sure anyone who is financially dependent on you would have enough to live on if you died.
- Ensure that you would have enough to live on if anyone you depend on financially died.

f) ‘Sort out longer-term savings and investment/investing a lump sum’

Consumer understanding:
Long-term savings and investments were not seen as appropriate for many of the respondents as they simply did not have enough money to contemplate meeting this need. In general, this was seen as relating to ‘later in life’, and not something that they felt was of a high priority.

Amongst some of the younger respondents, ‘longer-term savings’ related to saving for a deposit on a house, or in order to move house, whereas amongst some of the older consumers this need tended to be seen as relating more to ‘saving for retirement’.

Appropriate products:
In general, the best vehicle for longer-term investments was perceived to be high interest accounts, and spontaneously, most respondents mentioned ISA accounts as the method they would choose if they had a lump sum to invest.

“I wouldn’t have a clue [how to sort out longer-term savings] beyond the usual savings account and Cash ISA at the moment. I don’t really know about the other stuff.” (Young Single)

Further to this, some respondents did mention investing in stocks and shares, and several felt that they would seek advice when they had money to invest long-term.

Overall the following products, starting with those products most mentioned, were seen to be appropriate:
- Savings account
- Cash ISA
- Personal pension/stakeholder pension
- Stocks and shares
- Equity ISA

More high debt respondents chose a savings account as appropriate for longer-term savings, compared to the low debt group. However, the low debtors were more likely to choose investment products, such as Equity ISAs, Unit Trusts and Investment Bonds.

FSA definitions:

- Build up a lump sum over five years or more by setting aside money either regularly or at ad hoc intervals; or invest a lump sum to make it grow; or invest a lump sum to increase your current spending power

g) ‘Saving for retirement’

Consumer understanding:
The overall understanding by all respondents was that a pension was necessary to save for retirement, and that in theory this should provide them with enough income so that they wouldn’t have to ‘worry about paying the bills’ when retired.

Appropriate products:
Pensions were seen to be the way most respondents intended to save for their retirement. However, several did not feel they could afford to take on/add to a pension at the moment and of those with a pension plan, some had decided to freeze this for the foreseeable future.
A couple of respondents intended to sell their house in order to free up some capital for their retirement, or to invest in property rather than pensions.

“Invest in property, because looking at the state that pensions are in, I think property’s the only safe way you can save at the moment.” (Pre-family, Low debt/ Middle income)

Overall the following products, starting with those products most mentioned, were seen to be appropriate:

- Personal pension/stakeholder pension
- Savings account
- Cash ISA
- Whole of life insurance
- Equity ISA
- Critical illness cover
- Stocks and shares

“My mother, she did it. She had all her stocks and shares, purchased lots of them, and she hit retirement and sold the lot” (Pre-family, High debt/ Middle income)

Low debt respondents were more likely to choose one of the equity products as appropriate, compared to the high debt group**.**

FSA definitions:

- Enough income in retirement to support a comfortable lifestyle for you and your dependants.

4.2. Understanding of particular products

a) Savings accounts

All respondents understood what a savings account was, and often considered it appropriate for meeting most financial needs. One of the main advantages of such an account was the ease of access to money.

Many respondents used only one savings account to cover all financial activity eventualities:

"My emergency fund and my long-term fund and my short-term fund are probably all the same. It's just building a pot of money that I can fall back on…that covers all events." (Self-employed, High debt/ Middle income)

b) ISAs

Several respondents perceived Cash ISAs as a short-term savings product, and only a few individuals mentioned the tax-free benefits of these vehicles.

"Because the government says they are good things." (No dependants, High debt/ Low income)

"What does ISA mean?" (Pre-family, High debt/ Low income)

There was, however, considerable confusion over the definition of Equity ISAs, whether or not Equity ISAs were different to Cash ISAs, and what any differences might actually be.

"Equity ISA – does that mean the stocks and shares ISA, or the cash ISA? Well I suppose they are both in the same [risk bracket]." (Pre-school children, Low debt/ Middle income)

"I don't know what an Equity ISA is really" (Self-employed, Low debt/ Middle income)

The term 'Equity' appeared to be the route of the confusion and in some cases artificially linked the product with property and housing:

"I've heard the terms...wouldn't know the difference between a Cash ISA and an Equity ISA…Equity is probably in your house?" (At school dependants, High debt/ Middle income)

c) Income Protection Insurance, Accident sickness cover, Critical Illness cover

The general premise of these types of protection insurance appeared to be well understood, however very few respondents held these products and it was rarely mentioned that the policies would only pay out in certain circumstances. Typical definitions included:

Income protection: *"If I'm out of work through accident or illness, or not being able to work for any reasons and I have those insurances, it helps my dependants because there's still money coming into the house." (At school dependants, High debt/ Middle income)*

Critical illness: *"Because if I die, I want to know that my girlfriend and my child have at least got something out of it." (Pre-school children, High debt/ Low income)*

d) Term insurance/assurance, Whole of life insurance/assurance

Several respondents had taken out life assurance with their mortgage, as advised by their mortgage lender. There were also some individuals who had been sold life assurance at a reasonably early age by a home agent insurance salesman, and these people did not necessarily understand what this product was, or its benefits or drawbacks.

"With life insurance, if anything happens to us, [we know] that Devon [toddler] would be catered for." (Pre-school children, High debt/ Middle income)

"Well, if we've got term insurance, it's there to cash in or you can wait until it's matured" (Pre-school children, High debt/ Middle income)

e) Personal pensions/stakeholder pensions

Whilst most respondents understood that pensions were the main vehicle to save for retirement, there seemed to be some confusion as to how they worked. A few respondents understood that they could receive a lump sum from their pension at retirement, while one mentioned cashing in their pension ahead of retirement if necessary in order to access funds early.

"Because if you have a stakeholder pension and a proper pension, you may get that back when you retire" (Pre-family, Low debt/ Middle income)

Although there was mention of recent media coverage over pensions and the questions over their stability, several still had the expectation that the money invested in a pension would be secure.

"I just had a pension because I thought I needed one, which I do believe I do, but I never fully understand and it frightens me a little bit too." (Pre-school children, High debt/ Middle income)

f) Stocks and shares

Stocks and shares were generally well understood, with the general premise being that it is possible to make and also lose money. However due to the level of risk perceived, many respondents felt they were inappropriate for their situation at present.

"It's a right gamble isn't it really? Some people have everything and then lose it all, don't they?" (Pre-school children, High debt/ Low income)

g) Endowment policy

Many of the respondents who had a mortgage also had an endowment policy, and therefore recognised the long-term nature of the product.
Recent media coverage focusing on the funding short falls from endowments was often mentioned, and there was a general lack of trust in these products. As such, they were often seen as 'risky'.

"It's a gamble on the most expensive thing a person will ever buy." (Pre-family, Low debt/ Middle income)

h) Unit trusts, Investment bonds

Several respondents lacked an awareness and understanding of these products, but often assumed that because of the word 'investment' they would be linked to the stock market, and would therefore be '*quite risky*'.

"Unit trusts…I've heard of it but I'm afraid I don't know what it is" (Pre-family, Low debt/ Middle income)

4.3. Attitudes to Financial Risk

Respondents were asked to define their attitude to risk with regard to investments, and to give their interpretation of the following phrases:

- 'Risk to capital'
- 'Performance risk'

In general, the concept of 'risk from investments' was most widely understood only at its most basic level, i.e. respondents recognised that there was the possibility of either making money or losing money from these products. In fact, many respondents understood 'risk' to simply mean that money would be lost. There was also a tendency to relate 'risk' in financial terms to the housing market, in terms of property losing value.

"Don't know, not really bothered with it, it's not in my league. Concerned would lose it. More trust in savings accounts." (High debt/Low income)

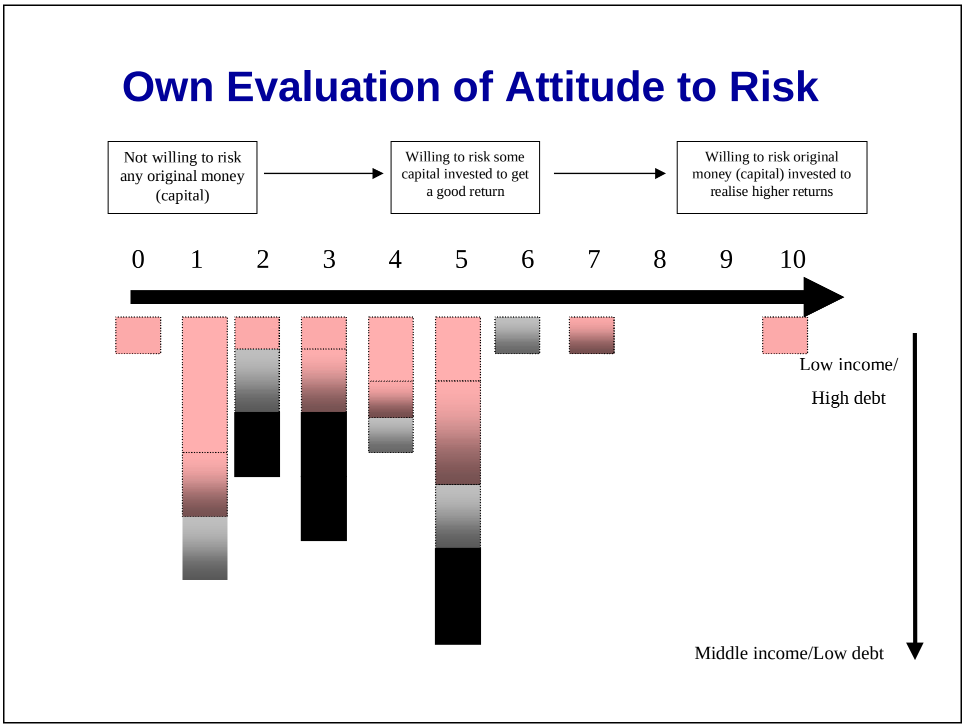
"My idea of risk would be actually losing money, you know having it there and it not being used for what you wanted." (Low debt/Low income)

"Getting into debt or money making." (Low debt/Low income)

When prompted to explain what they thought 'risk to capital' and 'risk to performance' could mean, there was a general lack of understanding, with many respondents simply saying they didn't know. An example of one of the few respondents who did understand includes:

"If you put your capital into something there's always a risk that depending on what it is, there could be a risk that you could lose, not gain." (Low debt/Middle income)

Towards the end of the interview, respondents were asked to self-classify their risk level by indicating on a show card (see Appendix E). The scale offered to respondents was from 1-10, however one individual chose ‘0’. The resulting varying views are shown below:

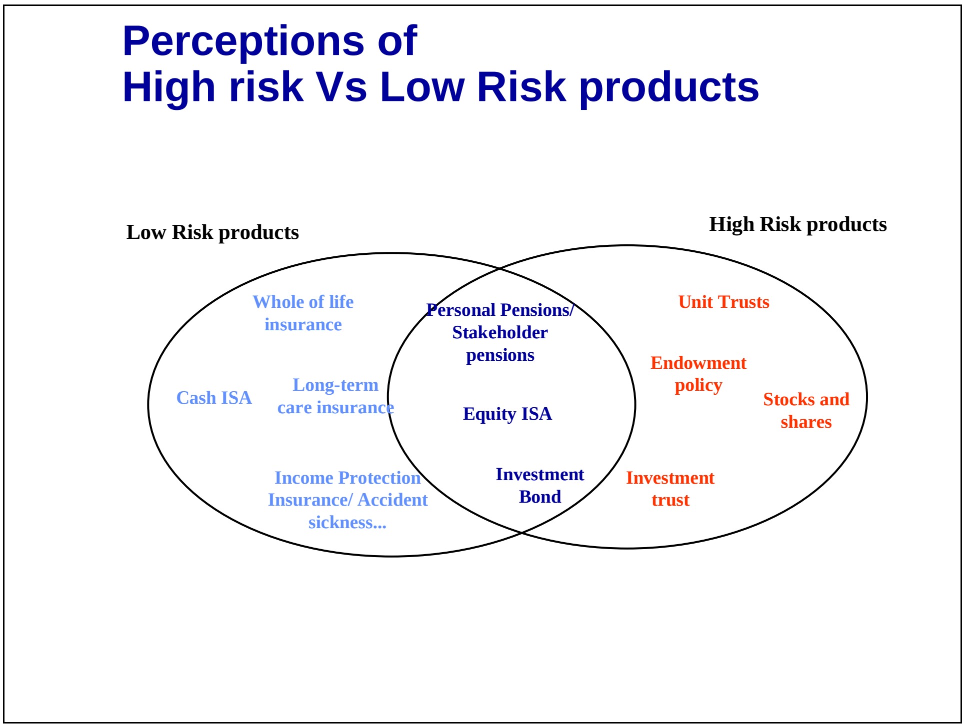


The varying bars indicate the focus of mentions. The majority of respondents classified themselves as reasonably risk-averse. As income increased/debt decreased, there was some movement towards becoming slightly less risk-averse.

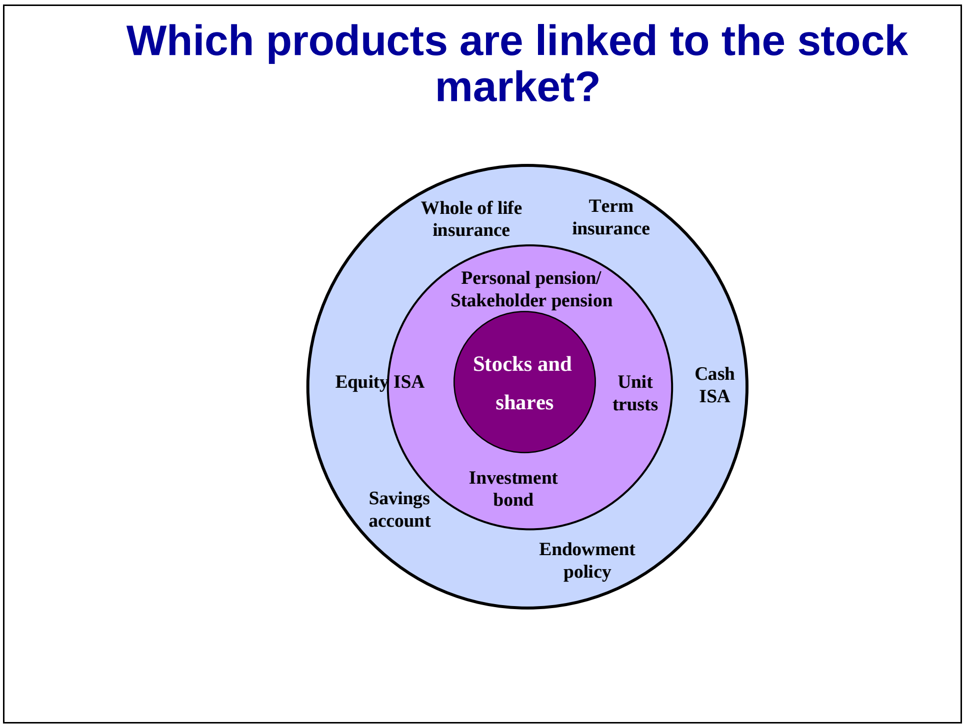
As a further investigation into consumer understanding of equity-based products, respondents were asked to carry out a series of exercises;

- firstly, they were asked to separate out various products into piles of ‘risky’ and ‘non risky’ products
- they were then asked to identify which of the same list of products were linked to the stock market

The following chart indicates which products were seen to be low/high risk; those products placed in the over-lapping part of the two ellipses were widely defined as either low or high risk by different respondents, indicating no real consensus of opinion:



The following chart shows which products were perceived as being linked to the stock market; those nearer the centre of the target were more commonly defined as being linked to the stock market:



Whilst it appears that many respondents understood which products would carry some risk, they did not necessarily understand the reason for this – that they are potentially linked to the volatility of the stock market. In particular, there was some confusion over whether Equity ISAs were risky and if they were linked to the stock market; several respondents put Equity ISA in the same categories as a Cash ISA;

5. How consumers address their financial needs

This section discusses the extent to which consumers consciously manage and plan their finances, and how they prioritise their expenditure. In addition, it also investigates what effect the life stage of the consumer has on financial planning.

5.1. The effect of life stage on financial needs

When asked what changes in their life they imagined would trigger a review of their finances, many respondents could only see a change in their work situation as having a potential impact, either through increasing their salary or being made redundant.

Other events mentioned spontaneously depended on their particular stage in life. For example, those individuals classed as ‘Pre-family’ (Age 20-40, and thinking of starting a family within the next 18 months) often felt that getting pregnant, or having a baby, would trigger a change their financial situation. However, it was clear that generally there was no conscious planning within this group in terms of preparation for the possibility of having children in the near future:

“I think if I fell pregnant, that would be a major one. I think it would be panic stations!” (Pre-family, High debt/ Low income)

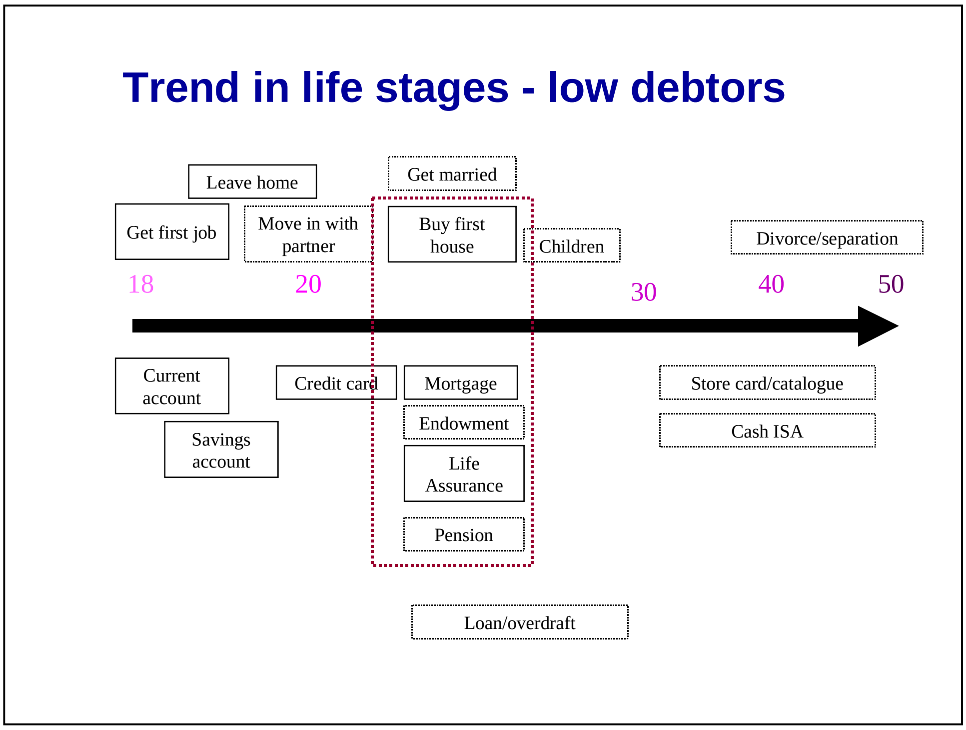
Respondents undertook an exercise which involved filling out a ‘Life stage chart’ (see Appendix C); this detailed which significant events from a finite list had occurred during their life, and which financial products, again from a finite list, they had taken out at different ages.

Amongst the low/no debt group, a fairly common pattern occurred in terms of life stage events taking places, and the incidence of corresponding financial products purchased or taken out. A typical life cycle picture could be generated from the events in these respondents’ lives.

Many respondents had taken on a first job and left home in their late teens and early twenties, while others had married, moved in with a partner and purchased a property. Children followed in the mid to late twenties. Others had also divorced in later life.

Looking at the type of financial products taken out, most took out some form of current or savings account when they had taken on their first job or left home – some also took on credit cards at this stage.

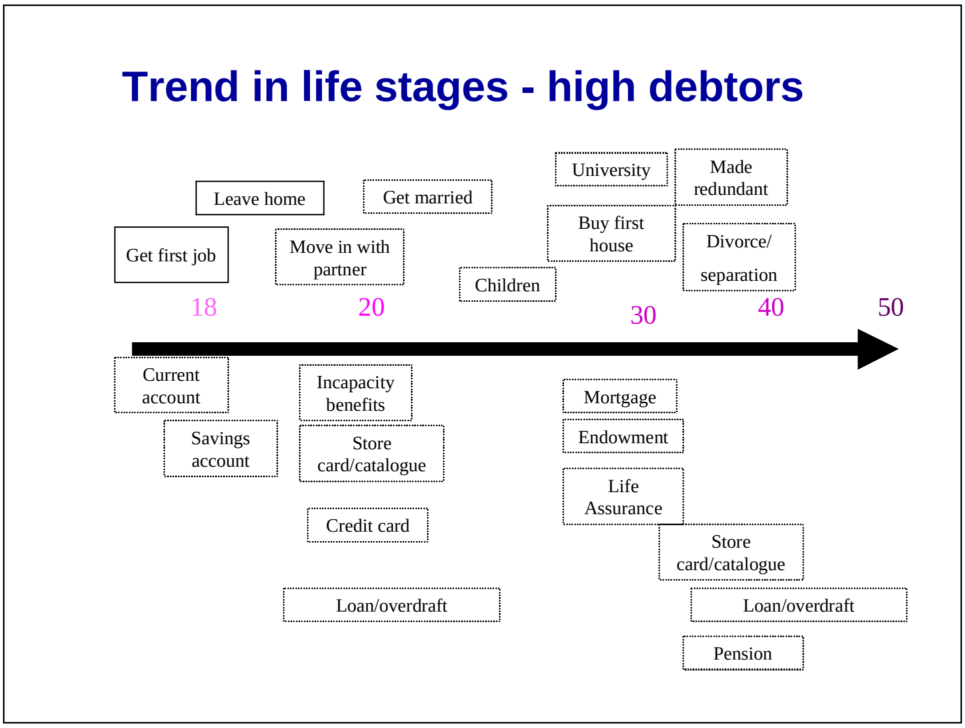
The following chart demonstrates this:



The main period of heavy financial activity was often allied to house purchase, and advice and recommendation often led by some form of financial adviser When arranging a mortgage, many also appeared to take out a series of other financial products, including life assurance, endowments or pensions. Interestingly, the arrival of children did not appear to trigger any real changes in financial holdings.

Means of restraining levels of debt in the low income/low debt categories appeared to hinge either on the ability to maintain manageable spending levels, or on consciously saving prior to a change in life stage (especially for a house move). Others mentioned that their attitudes to finances changed when they moved in with a new partner or got married (which in some circumstances also impacted on their own household income levels)

On analysis of the show cards for the high debt group, it was clear that patterns of activity were more diverse than for the low/no debt groups.



While early years trends appear similar, some respondents had clearly experienced a major event that had a significant impact on their finances, and had ultimately led to their debt problems. Early credit activity, such as taking on credit/store cards and other credit agreements and loans appeared more common for this group, often developing into a cycle of debt. General overspending, an inappropriate prioritisation of income, or a general misunderstanding of how credit works often exacerbated the situation. Examples of situations like this included respondents saving small amounts in a cash ISA every month but only paying the minimum monthly amount owed on a credit card.

"I'm not very good with money really, because I tend to go over-drawn. I think I just spend. When I want something, I just have it!" (No dependants, High debt/ Middle income)

"I guess I was just young and stupid taking on all those cards."

Others had, however, experienced major life changing events which had resulted in higher debt levels; some had divorced and had found it difficult to manage on their wage alone, some had been made redundant, while others had become mature students thereby losing their regular income or incurring high student loan debts:

"When I decided to do the teacher training, the first thing I did was go to the bank manager and the mortgage company and tell them that I would need to reschedule the payments…"

5.2. Prioritisation of needs

When asked what they would do if faced with an unexpected windfall (of say £500), priorities for payment of expenses and other financial needs often changed. Regardless of income/debt levels, there was a split in behaviour between spending the windfall and paying off debts (spontaneous mentions), with some respondents choosing to pay off their outstanding credit card bills.

"[With £500] I'd buy a new carpet – you want to see something for your money!" (No dependants, High debt/ Middle income)

"It would go into the bank account, and add to what is not always there" (At school dependants, Low debt/ Low income)

"Probably the most sensible thing to do would be to reduce my credit card bill, because I'm paying interest on that, but I always think I can pay it [minimum amount] off every month and there's no major demand…. But my current account, I want to make it look good in black and white" (Pre-family, High debt/ Low income)

Respondents were then asked to imagine they had been given a windfall of £500, and asked to prioritise a prompted list of various 'financial needs' with regard to what they would do with this money (see Appendix B). When prompted in this way, the overall priority for respondents was to 'sort out your borrowing', with a recognition that this is the most 'sensible' thing to do:

"It's just dead money when you owe" (At school dependants, High debt/ Middle income)
"It saves you worrying about it if you pay it off." (Pre-family, Low debt/ Low income)

In addition, some trends according to life stage, emerged from this exercise:

- 'Young singles' were more likely to choose 'Spend it' as their highest priority.
- 'Protecting your living standards and those of your dependants' was given a higher priority amongst those who are older but who did not have any dependants.
- Saving for retirement was not a high priority for any life stage grouping.
- Of the respondents who identified 'Save for retirement' as their lowest priority, many did not have a pension scheme.

"Retirement's the last thing in line 'cos you always think it's ages away and there's more of a pressing need for the money at the moment" (Pre-family, High debt/ Low income)

Other trends also emerged, linked to debt level:

- The highest priority for the high debt group was to ‘Sort out your borrowing’, whereas low debtors chose ‘Spend it’ or ‘Save for a short term goal’.
- Neither high nor low debt groups were likely to prioritise ‘Save for retirement’ or ‘Sort out longer-term investments’

Overall priority levels for use of the £500 windfall are shown below:

1st	Sort out your borrowing	*“Pay off my major debts then buy essential items like a fridge.” (Pre-family, High debt/ Low income)*
2nd	Spend it	*“I’d probably spend it to make myself feel better in the short term…” (Young Single, High debt/ Low income)*
3rd	Save for a short term goal	*“I’d just put it into the account.” (Pre-family, Low debt/ Low income)*
4th	Protect your living standards	*“Look after my wife and put some money aside if anything happens to me.” (No dependants, Low debt/ Middle Income)*
5th	Build an emergency fund	*“I’m actually managing my current account so I don’t see much need for an emergency fund at the moment” (Pre-family, Low debt/ Low income)*
6th	Sort out longer term savings	*“I’ve never had a lump sum to invest. That’s my problem, if I have a lump sum I’d spend it – I’d make sure all my debts were cleared but I’ve never really been into investing…” (Pre-school children, High debt/ Low income)*
7th	Save for retirement	*“I’m only 21 so I’m not thinking about a pension and pensions aren’t too strong at the moment anyway.. so it’s not a good time to be paying lots into pensions.” (Self-employed, High debt/ Middle income)*

5.3. Attitudes to money management

The formality with which respondents managed their money depended largely on personal characteristics and preferences, and did not appear to be linked to respondent income or debt levels. For example, although some individuals in the low income/high debt category had a very formal approach to managing money, keeping detailed records of their income and payments, others did not record anything formally, and were not even aware of the level of out-goings.

Many kept a rough ‘mental tally’ of what they had in their bank account, and checked their balance on a regular basis. Overall, it is fair to say that there appeared to be little formal budgeting across all respondent groups.

“I probably keep about 70% of everything that’s going on in my head. I don’t write it down.” (At-school dependents, High debt/ Middle income)

“I’ve usually got a rough idea [of how much is left at the end of each week]. I just take a mental note each time I go to the cash machine. But the problem with this is that you forget about things that haven’t come through” (Young Singles, High debt/ Low income)

“Reactive, not proactive at all!” (Young Singles, Low debt/ Low debt)

When asked how they felt about their situation and the way they managed their money, some in the low income group did feel they were struggling, although there were a few who mentioned that their situation had improved recently through the initiation of repayment of debts. Those in the middle-income group generally described their situation as ‘comfortable’, while those who also had high debts often felt they needed to be ‘careful’.

Overall, regardless of their actual situation, most perceived that they were in control of their finances and that they were ‘doing the right thing’ with their money.

5.4. Management of daily finances

Consumers used a wide range of financial tools and vehicles as a means of managing and monitoring day-to-day finances. Many used a bank current account as a means of managing their finances, with income, either weekly or monthly, being paid in directly. These accounts are viewed as a means of providing a written record of income movements and also as a way of actively prioritising payments such as bills through the use of direct debits. With the exception of several in the low income/high debt group, the majority of respondents were using direct debits as a financial management tool, helping them to understand, and keep track of, incoming and outgoing money. In addition, respondents felt reassured that their bills were being paid which, in turn, appeared to increase their confidence in their financial situation.

“Generally we use [direct debits] when there’s some sort of financial incentive, if you get a saving…. If not, we prefer to pay the bill because we don’t have a set amount going into our current account every month.” (Self-employed, Low debt/Middle income)

Some individuals, particularly those who did not have surplus income, had experienced difficulties when there were problems with the administration of direct debits, for example if they were not activated at the right time;

“Every time we’ve done direct debit, they take money out at the wrong date that we’ve given them, so there’s no money there, and then you’ve to pay for having money taken out. You know, we’ve had a lot of problems with banks and owing money.” (Pre-school children, High debt/ Low income)

Conversely, the low income/high debt group often epitomised a cash-based approach. Some respondents did not have, or use, a bank account, and were often left with no surplus funds after bills had been paid. Small, sometimes irregular, cash amounts coming in to the household were being managed on a daily basis;

“If I spend this pound, I won’t be able to have a pound in that, or if that pound goes, I haven’t got enough for electricity.” (Pre-family, High debt/ Low income)

As a result of low income, and the irregularity of receipt of funds, these respondents often had difficulty in managing their finances. It is perhaps not surprising then, that this group of consumers did not show evidence of long term planning or budgeting and appeared to lack any contingency plans.

5.5. Household Expenses and One-off Payments

Expenses that can be defined as ‘subsistence’ issues were often the main priority for those on a low income and with high debt; rent, council tax, groceries and utility bills were seen as the main household expenses. In these circumstances, paying off debts was perceived as a lesser priority.

“I’d rather pay them [the loan companies] less than go without food.” (No dependants, High debt/ Low income)

Mortgage payments were generally perceived to be the main household expense for the remaining respondent groups, and as income increases, or debt decreases, other expenses such as pensions and insurance begin to factor into the household budgeting.

When faced with an unexpected or unplanned expense, those on a low income appeared either to ‘do without’ in other areas, or to use their credit card or overdraft as a means of payment.

“If it has to be done, it has to be done…. and once again it comes out of our ever-fluctuating overdraft” (At school dependants, Low debt/ Low income)

Individuals with a higher household income had more choice as to how they would pay for a one-off expense; from surplus regular income, from a specified savings pot or by using a credit card.

“We would use our ready cash in the bank” (No dependants, Low debt/ Low income)

Many respondents did not receive any tax credits or benefits, and few had checked to see if they were eligible; in particular, those with middle to low income, or with low/no debt tended to assume they would not be eligible. Those who were receiving tax credits or benefits had often discovered this through information provided at the Job Centre, or in some cases an accountant:

"I get working family tax credit, children's tax credit and child benefit…I phoned up as soon as I was pregnant to find out what I could claim, but I think if I hadn't done that I would have been embarrassed." (Pre-school children, High debt/ Middle income)

"You just sort of fill the forms in and see what they come back with. So yeah, I do it but as I say I'd probably like to understand it a bit more" (Pre-school children, Low debt/ Middle income)

5.6. Attitudes to Credit and Savings

It was common in this study for consumers to only pay off the minimum monthly repayment on their credit cards. For some, this was because they could not afford to pay more, while others budgeted their overall monthly out-goings around the minimum repayment level and at this stage were unconcerned about managing repayment of the whole debt.

"I'm not up to the full limit on [credit card] anyway, so I can still spend on it…I've just been paying more than the minimum payments, but not enough to clear the full balance." (Pre-family, Low debt/ Low income)

"A holiday, or something like that, goes straight on my credit card because it'll be a yearly thing, so the way I look at it, I've got a year to pay it off." (Self-employed, High debt/ Middle income)

Respondents were also asked if they put any money aside for any reason, and if so, what vehicles were used for this purpose. Many felt that they were unable to save, with day-to-day living expenses often accounting for all regular income coming into the household:

"We're in temporary accommodation…don't pay for gas/electric, some rent is paid by housing benefit, but it's still a struggle…. a roof over our head [is our top priority]." (Pre-school children, High debt/ Low income)

Individuals with more potential to save tended to wait until the end of the month to see what was left in their account, and then put any spare money aside. Many respondents transferred these funds to a savings account, although some were also effectively keeping them 'under the mattress'.

“If I do get a bit of spare cash, I pay a bit more off than I should [on my credit card]…. or I bung it in a shoe box upstairs.” (Young single, High debt/ Middle income)

Individuals with higher household incomes, and with less debt, more commonly had a regular savings plan, with money automatically transferred each month into a savings account or an ISA. This money tended to be earmarked for holidays, or as a ‘rainy day fund’, although a couple of the middle income/low debt respondents mentioned that they were saving for ‘the future’.

“I have a standing order for a certain amount to go into another account that covers holidays and any other expenses not covered within our budget.” (No dependants, High debt/ Low income)

It is interesting to note that very few respondents mentioned pensions or long-term saving vehicles when asked if they saved on a regular basis.

6. Use of, and attitudes towards, financial advice

This section discusses the extent to which consumers use financial advice, where advice is taken and attitudes towards advice.

Several respondents had spoken to a “door-to-door insurance man” in the past, many when they were in their early 20s. At this time, they had been advised to take out various products, and had often taken out all those they felt they should have. Although many were not exactly sure what policies they had, general holdings included:

- Some form of savings plan
- Life assurance
- Personal pension

Additionally, some respondents appeared to have taken out more “sophisticated” financial products without any advice. For example, one low income/high debt respondent had applied for a ‘children’s bond’ direct through a form on a pack of nappies, whereas another respondent had bought shares through newspaper advertisements.

While respondents were asked at various points in the discussion if they had taken any ‘financial advice’, they were not expressly asked whether they had taken any advice for debt management. However, few respondents spontaneously mentioned asking for any kind of advice on their debt situation. A couple did mention speaking to the Citizens Advice Bureau, and someone else had informed the bank manager and mortgage company of a change in financial circumstances. It would therefore appear that ‘financial advice’ is seen to be appropriate only when there are finances to spare and to invest, rather than relating to advice on debt management.

“Until I get sorted out, [won’t be taking advice] until I sort myself out with it. But I’d rather do it myself and make sure I know what I’m doing” (No dependants, High debt/ Low income)

In fact, there was a feeling amongst those respondents with the least available cash that there was no point going to a financial adviser. The majority of these people took ‘informal’ advice from family and friends, and work colleagues. As income increases, and/or debt decreases, respondents were more likely to speak to their bank or building society; this avenue was the one most respondents initially mentioned. Some also said they would visit a financial adviser, or their company adviser (particularly with regard to their pension).

Appendix A: Research methodology, sample sizes and composition

A programme of qualitative research was undertaken during December 2002 and January 2003. Qualitative research follows a semi-structured format, and is intended to understand *why* consumers behave as they do and not to measure *how many* consumers are doing what.

How was the research carried out?
One-to-one depth interviews were conducted in respondents' homes, and generally lasted one hour.

Who was interviewed?
A total of 44 interviews were conducted, and quotas were based on life stage, income levels and debt levels.

1. **Life stages**

The life stages were defined as the following:

- **Young singles:** Age 20-25 years, not a homeowner and excluding students
- **Pre-family:** Age 20-40, and thinking of starting a family within the next 18 months
- **Pre-school children:** Age 20-65, and with children under 5 years.
- **At-school dependants:** Age 20-65, and with children/dependants aged 5 and over still living at home (dependants includes students)
- **No dependants:** Age 40-65, and with no dependants living at home (dependants includes students). Can include empty nesters whose children have left home, childless individuals and retirees.

The following table indicates the interview quotas, and numbers achieved:

Quota group	Interview quotas	Interviews achieved
Young singles	4	4
Pre-family	8	8
Pre-school children	8	8
At-school dependants	8	8
No dependants	12	12
TOTAL	40	40

The remaining 4 interviews were conducted with the following groups:

- **Unemployed:** Age 20-65 years, 2 interviews with people who are currently unemployed (excludes students)
- **Self-employed:** Age 20-65 years 2 interviews with people who are currently self-employed

- These two groups will either be earning, or were last earning (if unemployed), either a Low or Middle Income.

2. Additional quotas

Inter-locking quotas were also set on debt and income levels.

Overall		
	High debt	Low debt
Middle Income	12	10
Low Income	12	10

'Low Income' was defined as having a household income of £14,999 or less per annum, whereas 'Middle Income' was defined as having a household income of between £15,000 and £30,000pa.

Please see the copy of the recruitment guide (Appendix F) for definitions of debt levels.

Finally, there was an even gender spread among respondents and all respondents were either the sole or joint financial decision maker in the household.

Appendix B: Financial Needs – Terms and Definitions

These terms and definitions were supplied by the FSA and are taken from the FSA's financial planning consumer education information. The descriptions are described by the FSA as 'goals' for each type of financial activity.

- *'plan your budget'*: trying to spend no more than your income, including debt repayments; knowing where your money goes; releasing money to help you realise your goals.
- *'sort out your borrowing'*: pay off debts altogether; or borrow cheaply.
- *'build an emergency fund'*: have some money you can draw on in a crisis - for example, if your car or home need urgent repairs.
- *'save for a short-term goal'*: build up a lump sum over a fairly short period of time - from one to five years, say - often to pay for a specific project, for example, a wedding, holiday, deposit for a house or new car purchase.
- *'protecting your living standards/those of dependants'*: make sure you have enough to live on if you are unable to work for a long period due to illness or disability; make sure you have enough to live on if you lose your job; make sure anyone who is financially dependent on you would have enough to live on if you died; ensure that you would have enough to live on if anyone you depend on financially died.
- *'sort out longer term savings and investments/investing a lump sum'*: build up a lump sum over five years or more by setting aside money either regularly or at ad hoc intervals; or invest a lump sum to make it grow; or invest a lump sum to increase your current spending power.
- *'save for retirement'*: enough income in retirement to support a comfortable lifestyle for you and your dependants.

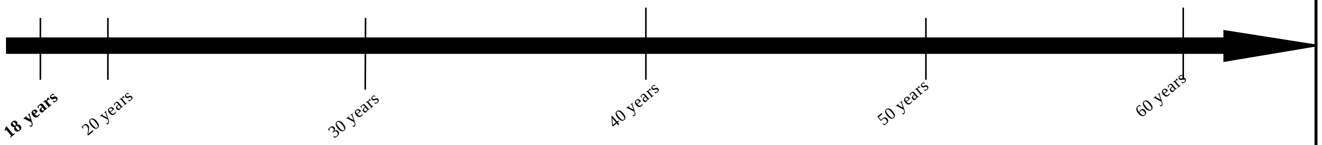
Appendix C: Age Line Showcard

AGE LINE (SHOWCARD A)

Please circle which you have done, then mark on the age line when you did it…..

a) Leave home for the first time	e) get married	i) get divorced/ separated
b) get your first job	f) have children	j) widowed
c) buying house for the first time	g) made redundant	k) anything else?
d) move in with a partner	h) retired	

Events



Products

Mark each if you have had several

Circle which you have ever had, then mark when you got them on the age line.

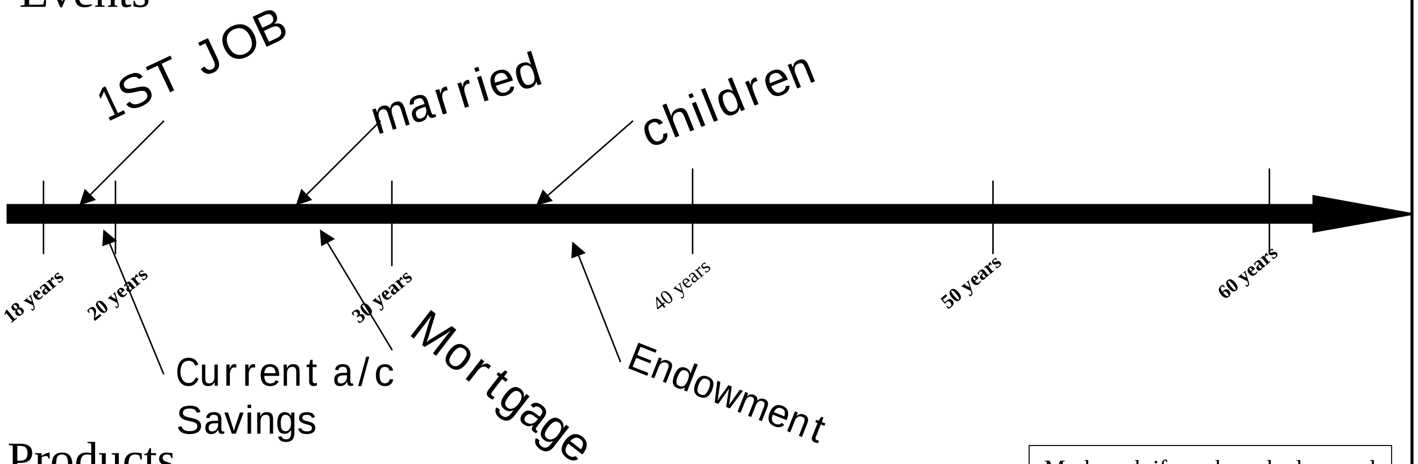
a) Savings Account	f) Mortgage	k) Equity ISA/PEP	p) Unit trust
b) Current account	g) Life Assurance	l) Cash ISA/TESSA	q) Shares/stocks
c) Credit card	h) Endowment policy	m) Company Pension	r) PHI - Permanent Health Ins
d) Store card/catalogue	i) Investment Bond	n) Personal Pension	s) Medical insurance (PMI)
e) Loan/overdraft	j) National Savings	o) AVC (free-standing)	t) Long term care insurance

AGE LINE SHOWCARD - EXAMPLE PAGE

Please circle which you have done, then mark on the age line when you did it…..

a) Leave home for the first time	e) get married	i) get divorced/ separated
b) get your first job	f) have children	j) widowed
c) buying house for the first time	g) made redundant	k) anything else?
d) move in with a partner	h) retired	

Events



Products

Mark each if you have had several

Circle which you have ever had, then mark when you got them on the age line.

a) Savings Account	f) Mortgage	k)Equity ISA/PEP	p) Unit trust
b) Current account	g) Life Assurance	l)Cash ISA/TESSA	q) Shares
c) Credit card	h) Endowment policy	m)Company pension	r) PHI - Permanent Health Ins
d) Store card/catalogue	i) Investment Bond	n) Personal Pension	s) Medical insurance (PMI)
e) Loan/overdraft	j) National Savings	o) AVC (free-standing)	t) Long term care insurance

Appendix D: Example of Showcard

Please circle as many as you think would be appropriate if someone was…….

BUILDING AN EMERGENCY FUND

a)	Savings accounts
b)	Cash ISA
c)	Equity ISA
d)	Income protection insurance
e)	Accident sickness
f)	Critical Illness cover
g)	Term insurance/assurance
h)	Whole of life insurance/assurance
i)	Personal pensions/Stakeholder pensions
j)	Unit trusts
k)	Stocks and shares
l)	Endowment policy
m)	Investment bond
n)	Long-term care insurance
o)	Not sure about any of these

Appendix E: Example Of Risk Showcard

1	2	3	4	5	6	7	8	9	10

Not willing to risk any original money (capital) → Willing to risk some capital invested to get a good return → Willing to risk original money (capital) invested to realise higher returns

Guaranteed capital

Products depend on performance of stocks and shares

Appendix F: Recruitment Guide

JN: 80351Consumer depths
November 2002

Opinion Research Corporation International
361-373 City Road
London EC1V 1JJ
Tel: 020 7833-8008

RECRUITMENT QUESTIONNAIRE: CONSUMER DEPTHS ; VERSION 4
JN 80351; Consumer Panel Research

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<table>
<tr><th colspan="2">RECORD QUOTA DETAILS BELOW WHEN RECRUITED</th></tr>
<tr><td>SEX (RECORD)
Male 1
Female .... 2</td><td rowspan="2">RESPONDENT'S NAME: ______________________
ADDRESS: __________________________________
____
____
TEL NO.____</td></tr>
<tr><td>AGE (QUOTA)
• 20-25……………………1
• 26-40..............................2
• 41-65………………..…..3</td></tr>
<tr><td>LIFESTAGE (QUOTA):
• Group 1: Young Single…………………1
• Group 2: Pre-family……………………..2
• Group 3: Pre-school children……………3
• Group 4: Post-school dependents……… 4
• Group 5: No dependents………………..5
• Group 6: Self-employed…………………6
• Group 7: Unemployed…………………..7</td><td rowspan="2">Interviewers Signature: _________________________
Interviewers Name:_____________________________</td></tr>
<tr><td>INCOME LEVELS (QUOTA):
• Low income……………………..1
• Middle income………………....2</td></tr>
<tr><td>DEBT LEVELS (QUOTA):
• High debt…………………...1
• Low/No debt……………….2</td><td>Interviewers Number: _______________________
Date: _____________________________________ 2002

I have conducted this interview according to my instructions and within the Market Research Society's Code of Conduct and to the best of my ability. I declare that this respondent was previously unknown to me.</td></tr>
</table>

<u>Introduction</u>

Good ______________________. My name is __________________________________ from Opinion Research Corporation International, an independent research agency based in London.

We are currently conducting a study about people's understanding about their financial needs.
The research is being commissioned by the Financial Services Authority, the chief regulator of financial services in the UK.

We are looking for people at certain stages in life and varied financial situations. Can I ask you a few questions?

Q1 ASK ALL
Are you the person who makes the financial decisions in the household?

Sole decision-maker/involved in decision-making process	1	**MUST BE CODED TO CONTINUE**
Joint decision-maker	2	
Not involved in decision-making process	3	**CLOSE**

Q2 ASK ALL
What is your employment status? Are you self-employed, employed full or part time, unemployed, retired, a homemaker or a student?

		CONTINUE, CHECK QUOTAS
Self-employed	**1**	
Employed full/part time	**2**	
Unemployed	**3**	
Retired	**4**	
Homemaker (full time)	**5**	
Student	**6**	**CLOSE**

Q3 ASK ALL Which of the following age groups do you fall into?

Under 20	1	**CLOSE**
20 – 25	2	**CONTINUE**
26 – 40	3	
41 – 65	4	
Over 65	5	**CLOSE**
REFUSED	6	**CLOSE**

Q4 ASK ALL
Which of the following income groups does your annual **household** income fall into (before tax)? IF UNEMPLOYED AT Q2 (3) – ASK: When you were last earning an income, could you tell me which of the following income groups your annual household income fell into (before tax)?

Very low income – less than £10,000	1	Quota = very low income	**CONTINUE, CHECK QUOTAS (MAKE SURE THERE IS ONLY 1 VERY LOW INCOME PER GROUP)**
Low income – between £10,000 and £14,999	2	Quota = low income	
Middle income – between £15,000 and £30,000	3	Quota = middle income	
High income – over £30,000	4	4	**CLOSE**

Q5 ASK ALL
Are you married, living as married, separated, divorced, widowed or single and have never been married?

Single/Never married	**1**	**CONTINUE/CHECK QUOTAS**
Married	**2**	
Living as married	**3**	
Separated	**4**	
Divorced	**5**	
Widowed	**6**	

Q6 ASK ALL
Do you have any children? If YES are they READ OUT AS NECESSARY……
SINGLE CODE

NOTE – IF MORE THAN ONE CODE APPLIES THEN CLOSE

No children	**1**	**CHECK QUOTAS**
Yes – all under 5 years old	**2**	
Yes – all 5 and over living at home (can include students still dependent)	**3**	
Yes – but no longer living at home (no dependents)	**4**	
REFUSED	**5**	**CLOSE**

Q7 ASK ALL UNDER AGE 41 (Q5 (2/3) AND NO CHILDREN (Q6 (1), OTHERS GO TO Q8 Are you thinking of starting a family in the next 18 months?

Yes	**1**	**CHECK QUOTA**
No	**2**	**CHECK QUOTA**

Q8 ASK ALL NEVER MARRIED/SINGLE, AGED 20 – 25, NO CHILDREN, OTHERS GO TO Q9
Do you currently own your own home?

Yes	1	**CLOSE**
No	2	**GO TO Q10**

Q9 ASK ALL DIVORCED AT Q4 (5), OTHERS GO TO Q10
How long ago did you get divorced?

Less than 2 years ago	1	**CHECK QUOTA FOR RECENTLY DIVORCED**
Over 2 years	2	**CHECK QUOTA FOR OTHER CATEGORY**

Q10 ASK ALL Which of the following statements comes closest to describing your own financial situation? In general, after paying regular household expenses….SINGLE CODE ONLY

I can generally pay back any regular payments or debts I hold quite comfortably	1	**CONTINUE**
I can generally pay back regular payments or debts with some income left over	2	**CONTINUE**
I sometimes have to cut back spending elsewhere to pay off debts	3	**CODE AS HIGH DEBT CONTINUE and record further answers**
I generally don't have enough spare income to pay back my regular debts easily	4	**CODE AS HIGH DEBT CONTINUE and record further answers**
DON'T KNOW/REFUSED	5	**CONTINUE**

Q11a ASK ALL
Which of the following financial products and services do you (or your husband/wife/partner) have or use? (READ OUT OR SHOWCARD D) MULTICODE ALLOWED

	Hold	SCORE	
Mortgage	1	**1**	
Credit card(s)	2	**1**	
Store card(s)	3	**1**	
Credit agreement for goods bought from catalogues	4	**1**	
A (used) Overdraft	5	**1**	
Personal loan	6	**1**	
Credit agreement for goods bought at a store	7	**1**	
Any other type of credit or loan agreements	8	**1**	
A loan or agreement which has consolidated a number of your debts into one	9	**12**	
None of the above	10	**0**	
(ADD TOTAL MENTIONS to obtain score for debt levels)			**WRITE IN SCORE = ……..**

Q11b IF CODE 2, 3, 4 AT Q11a (credit card/store card/credit agreement catalogues) ASK:
When you get a credit/store card bill or credit statement do you usually pay the minimum amount that's due, usually pay off the whole amount or something in between?
SINGLE CODE ONLY ; OTHERS GO TO Q11C

			SCORE =
Pay minimum amount owed	1	Go to Q11c	**5**
Pay whole amount owed	2	GO TO CALCULATION	**0**
Pay something in between	3	Go to Q11c	**3**
REFUSED	4	GO TO CALCULATI	**0**

		ON		
				WRITE IN SCORE = ……..

Q11c ASK IF CODED 2, 3, 4, 5 AT Q11A (credit card/store cards/catalogue/overdraft)
OTHERS GO TO CALCULATION
Q11ci. And would you say that for the cards or credit agreements you hold, that you are generally close to your full credit limit?

Q11 cii. Similarly, would you say that for the overdraft you hold, that you are generally close to your full credit limit?

SINGLE CODE.

	Q11ci	**SCORE for credit card/ store cards/ catalogue =**	Q11cii		**SCORE for overdraft =**	
Generally yes	1	**5**	1	GO TO CALCULATION	**5**	
Generally no	2	**0**	2		**0**	
DON'T KNOW	3	**0**	3		**0**	
REFUSED	4	**0**	4		**0**	
						WRITE IN TOTAL SCORE = ……..

DEBT CATEGORY CALCULATION

Q11a SCORE	+	Q11b SCORE	+	Q11C SCORE	=	**Overall Score ……………..**

IF RESPONDENT CODES Q10 (3) AND (4) = CODE RESPONDENT AS HIGH DEBT REGARDLESS OF OTHER SCORES

IF RESPONDENT CODES Q10 (1) AND (2), PLEASE USE THE FOLLOWING SCORING SYSTEM TO DETERMINE THEIR DEBT LEVELS
IF OVERALL SCORE = UNDER 12 POINTS CODE RESPONDENT AS LOW DEBT
IF OVERALL SCORE = 12 POINTS AND OVER CODE RESPONDENT AS HIGH DEBT

MAKE AN APPOINTMENT FOR DEPTH

I would be very interested in speaking to you further to ask your attitudes and opinions.

We would like to make an appointment with you to share your views and opinions with us. It will last about one hour.

As a token of our appreciation of your time and comments we will be offering you £30 as a thank you for giving up your time.

When would be convenient for you?

Time__________________ Date____________________ Location _____________________

RECRUIT

Yes 1
No 2

EXPLAIN: The interview may be tape-recorded so that the interviewer does not have to make notes and slow down the process – would you have any objection to that?

PROVIDE MRS LEAFLET AND FREE PHONE NUMBER FOR REASSURANCE OF RESEARCH EXERCISE AND NOT SALES.

Appendix G: Discussion Guide

JN 80351 Consumer Panel Research – November 2002

Discussion Guide FINAL Version (09/12/02)

1 INTERVIEWER INTRODUCTION

Brief introduction of objectives/coverage of research. The broad objectives of the research are:

- *Looking at peoples attitude to money*

1.1 Confidentiality/anonymity

1.2 MRS Code of Conduct

1.3 Permission to tape record

2 RESPONDENT INTRODUCTION

- pen portrait of each respondent
- family situation, dependents, work, interests etc.

3 DAILY FINANCIAL MANAGEMENT

We would like to find out about how people manage their income and how they decide where to spend it, if they manage to save any money etc.

3.1 Firstly, please could you could describe the way that money, or regular income, is handled when it comes into the house?

Obtain spontaneous responses then prompt on the following:

- Does it go into your current account/is it cash/wage packet?
- Is it pooled with your partner? How?
- Do you use Direct Debits to manage your money? How? What for?

3.2 When you have money coming in, what would you say are your main expenses, or the main household expenses? Firstly for the household as a whole?

If not mentioned, prompt on the following:

- General cost of living/food bills
- Child care/clothing for children (if appropriate)

- Mortgage payments/rent
- Life insurance/pension payments/medical insurance
- House insurance/car insurance/other insurance
- Clearing debt payments/loans/credit agreements etc
- Credit cards/store cards/catalogue debts
- Household bills
- Anything else?

PLEASE NOTE – IF RESPONDENT MENTIONS ANY FINANCIAL PRODUCTS OTHER THAN A MORTGAGE (EG PENSION/ INSURANCE) AS AN EXPENSE, ASK:

- Would you say that this is a significant expense?

3.3 Are your own expenses any different? Do you have any expenses on a personal basis?

3.4 Do you have any other financial outlays? If yes, what are they?

3.5 Do you put any money aside for any reason?

3.5.1 If yes, ask:

- What is the particular reason?
- Short term/long term reason?
- What event – one-off event (e.g. holiday, car) or longer-term event?
- How does that work – is money transferred to a different policy/account? When/how? Why/why not?

3.5.2 If no, ask:

- Any reason why not?
- Do you plan/expect to start saving in the future?
- If yes, what would this be for? Short term/long term reason?
- What event – one-off event (e.g. holiday, car) or longer-term event?

3.6 Which expenses do you feel are the most difficult to manage? Why?

3.7 Which expense is your top priority? Which are the most important to be sorted out? Ask respondent to put all expenses mentioned earlier in order of priority.

3.7.1 If you only had a limited amount of money one month, what would you pay off first, what second, what next etc?

If not mentioned, prompt on the following:

- Money for policies such as life insurance/pensions/general insurance etc
- Savings accounts/policies
- Other investments
- Paying off debts/loans
- Paying off mortgage/rent
- Household bills
- Childcare
- etc

3.8 I'd like you to imagine you had a windfall of £500. What do you think you would do with this money?

3.8.1 Why?

3.8.2 Would you feel confident that this would be the best thing to do with the money? Why/why not?

3.8.3 Then what would you do with it?

3.8.4 GIVE RESPONDENT SHOWCARD A1. Please could you rank each of these activities – from 1 to 7 - in order of priority to pay off. I.e. If you had a windfall of £500, which ones would you pay off first, second, third, etc.?

Why?

If not previously discussed/ mentioned, please ask Q3.9 and Q3.10

3.9 What is your approach to managing your money? How do you balance money coming in with your outgoings?

If not mentioned, prompt on the following:

- How formal is your money management?
- Do you record all your payments? If yes, for which things?
- Do you know how much you will have left at the end of each week/month?
- IF NOT, ASK: Is this important to you? Why/why not?

3.10 How would you describe the way you feel about managing your money generally?

Obtain spontaneous responses then prompt on the following:

- Do you feel comfortably off, do you manage without much difficulty?
- Do you have to be careful with your money?
- Do you find it difficult to manage on a week by week basis?
- Do you feel confident about the way you manage your money?
- Do you set yourself any budgets? Why/why not?

ASK ALL:

3.11 What kind of things do you have to pay for that come up infrequently, or that are expensive (e.g. a car, a holiday)?

3.11.1 How do you pay for these?

If not mentioned, prompt on the following:

- Do you plan in advance? If yes, how do you do this?
- Use of credit cards/loans/overdraft etc – how are repayments made/how are repayments budgeted for?
- Saving up before purchasing – is money kept separate?

3.11.2 How does this fit into your household budgeting?

3.12 Are you saving for anything in particular at the moment?

Prompt on the following:

- Wedding
- Children
- Holiday
- House
- Car

3.13 Do you receive any benefits/tax credit at all?

IF YES:

3.13.1 What are these?

IF NO:

3.13.2 Do you know if you are entitled to any benefits or tax credit?

3.13.3 Have you looked into any benefits/tax credits you may be entitled to?

3.14 Are there any other things you feel you should have done, or financial products you should have bought, but haven’t? If yes, what?

3.15 Do you think that you have enough information to help you determine what you should be doing with your money? Do you think it is easy to find advice? Why/why not? Is the advice helpful? Why/why not?

4 LIFE STAGE AND PRODUCT ACQUISITION

4.1 SPONTANEOUS

What changes in your life do you think would trigger a review of your finances (past and future)?

4.2 *GIVE RESPONDENT AGE LINE (SHOWCARD A) explain task showing example*

ASK RESPONDENT TO FILL OUT EVENTS ABOVE THE LINE AS PER INSTRUCTIONS

NOW COMPLETE/CIRCLE PRODUCTS SECTION OF AGE LINE SHOWCARD A (BELOW THE LINE)

NOW TAKE EACH EVENT (MARKED ABOVE THE LINE) ONE AT A TIME: *INTERVIEWER NOTE: PLEASE STATE FOR THE TAPE WHICH LIFESTAGE THE RESPONDENT IS REFERRING TO AT EACH STAGE.*

FIRST EVENT

- How did the event change your life so that you had to rethink things, in terms of your finances?
- What needs financially do you think you had at this time?
- Did you make any financial arrangements/provisions for this event? Why/why not? What were they? *(check here whether any product was circled on Show card A and marked on the age line at the same stage as the event being discussed)*

IF A PRODUCT WAS TAKEN UP AT THE SAME STAGE AS THIS EVENT, PLEASE ASK THE FOLLOWING QUESTIONS:

(IF RESPONDENT HAS MORE THAN 2 PRODUCTS CIRCLED FROM G-T, DO NOT ASK ABOUT PRODUCTS A-F)

- How did you go about getting this product? Where from?
- Did you take any advice? If yes, who from? What advice?
- Did you decide to do it yourself?
- How far in advance did you plan taking out this product?
- Were you confident that you understood the product and that it was right for you?

IF NO PRODUCT WAS TAKEN UP AT THIS STAGE, PLEASE ASK THE FOLLOWING QUESTIONS:

- Did you take any advice? If yes, who from? What advice?
- Ideally what type of financial arrangements do you think you could or should have been thinking about in this event? Why?

FOR ALL OTHER PRODUCTS CIRCLED, BUT NOT YET DISCUSSED, ASK: Q4.3 TO Q4.8

IF RESPONDENT HAS MORE THAN 2 PRODUCTS CIRCLED FROM G-T, DO NOT ASK ABOUT PRODUCTS A-F

4.3 When did you take out this product? Why at that stage in your life? What triggered you to take out this product? Why?

If not mentioned, prompt on the following:

- What 'need' did you have at the time that this product was addressing?
- What factors in your life did you consider when making this decision?

4.4 How did you go about getting this product? Where from?

4.5 What advice did you take if any?

4.6 Did you decide to do this yourself?

4.7 How far in advance did you plan taking out this product?

4.8 Were you confident that you understood the product and that it was right for you?

ONCE EACH PRODUCT HAS BEEN DISCUSSED, PLEASE ASK THE FOLLOWING QUESTIONS:

4.9 Are there any other products that your partner purchased for both of you/ your family as a whole?

IF YES, ASK:

4.10 Were you involved in the decision?

4.11 Are you confident that you understand the product and that it is right for you and your partner?

5 UNDERSTANDING OF FINANCIAL ISSUES

I'd now like you to look at different financial categories, or 'needs', to see what you understand by these and what you think people who have these needs would/should do with their money.

ASK RESPONDENT TO LOOK THROUGH CATEGORY SHUFFLECARDS

(SHOWCARDS C):

5.1 Firstly please can you select all the different categories that apply to what you do with your money, or what you have done in the past?

INTERVIEWER – MAKE A NOTE/READ OUT FOR THE TAPE THE CATEGORIES SELECTED, AND FOR EACH CATEGORY SELECTED, ASK:

5.2 What is your definition of this/what do you think this means?

INTERVIEWER INSTRUCTION: ENCOURAGE RESPONDENT TO GIVE A SHORT DESCRIPTION OR SENTENCE TO DESCRIBE EACH CATEGORY

5.3 How did you go about this/approach this? PROBE FULLY

THEN TAKE ALL OTHER CARDS ONE AT A TIME AND ASK:

5.4 What is your definition of this/what do you think this means?

5.5 Do you feel you understand what this means?

5.6 How do you think would be the best way to approach this?

TAKE SHOWCARD D AND ASK RESPONDENT TO CIRCLE THE PRODUCTS FOR EACH CATEGORY (OR TO TELL YOU, AND YOU WRITE), WHERE THEY FEEL EACH PRODUCT IS APPROPRIATE FOR ANSWERING THE NEED:

5.7 Please could you now tell me/circle under each category, where you feel each product would fit in order to answer that particular financial need. The list of policies is the same on each card

IF THEY DO NOT UNDERSTAND WHAT THE PRODUCT IS, TELL THEM THAT THIS IS OK, MAKE SURE IT IS CLEAR ON THE TAPE WHICH ONE THEY ARE TALKING ABOUT, THEN MOVE ON TO THE NEXT CARD

For each, ask:

5.8 Why have you put this here? Why do you see this as fitting in this category?

6 ATTITUDE TO RISK & EQUITY PRODUCTS

I'd now like to talk a little about the element of 'risk' attached to some financial products.

6.1 What is your attitude to risk (the level of risk) regarding money? E.g. adventurous / cautious ?

6.2 How would you define risk (relating to an investment or a policy)?

6.3 What types of risk do you think there are with money/policies etc?

6.4 How well do your financial arrangements match your approach to risk?

INTERVIEWER – PLEASE READ EACH OF THE FOLLOWING OUT AND ASK:

6.5 What is your definition of this/what do you think this means?

- "Risk to capital"
- "Performance risk"

SHOWCARD E – CODE RESPONSE ON SHEET:

6.6 On this scale of 1 to 10, where do feel you are in terms of how much risk you are happy to take with your money (where one is no risk, and 10 is willing to risk your capital for higher returns)?

*ASK RESPONDENT TO LOOK THROUGH PRODUCT SHUFFLECARDS (**SHOWCARDS B**) ONE AT A TIME:*

6.7 These are different types of accounts and policies. Please can you place these products into two piles. Pile 1 is for products that you feel would be low risk. Pile 2 is for those products that you think would be high risk. Risk here refers to the risk to your capital.

INTERVIEWER – PLEASE MAKE A NOTE, OR STATE FOR THE TAPE, WHERE THE RESPONDENT HAS PLACED EACH PRODUCT

TAKE THE CARDS IN PILE 2 (RISKY PILE), AND ASK FOR EACH (MAXIMUM OF 3):

6.8 If you could imagine you were taking out this type of product (or if you have one of these products), what do/would you expect would happen to your money?

6.9 Do you think there is/would be a likelihood you may not get back the original sum you put in? (What is the risk to your capital?)

6.10 What do you think money invested in this product might money grow by? E.g. more/less than a savings account?

6.11 How would you describe its level of risk?

6.12 Do you feel that this product would ever be/is relevant to you? Why/why not?

7 SUMMARY OF FINANCIAL SITUATION

And the final section now…

7.1 Overall how in control do you feel of your financial situation?

7.2 What do you feel you would need to give you further financial security in the future?

7.3 How would you go about that?

7.4 How much help or advice would you need to help you decide which products you need?

7.5 Where would you go to get this advice?

7.6 And finally, now that we have been discussing these issues, do you feel happy that what you are doing with you money is the right thing for you? Why/why not?

LEAFLET:

PLEASE OFFER RESPONDENT THE FSA LEAFLET, ESPECIALLY IF THEY SEEM WORRIED/CONCERNED ABOUT THEIR FINANCES.

EXPLAIN THAT IT IS NOT A SALES LEAFLET BUT AN ADVISORY LEAFLET THAT IS PRODUCED BY THE FSA TO SHOW PEOPLE WHERE THEY COULD GO FOR HELP WITH THEIR FINANCES.

RECRUITMENT FOR SECONDARY INTERVIEW:

We would like to conduct some shorter interviews with some of the people who have taken part in this research. These interviews would be based on a questionnaire about your actual financial situation and would take about 20 minutes.

As a token of our appreciation of your time we will be offering £20 as a thank you.
Would you be willing for me to come back to get through this questionnaire with you?

When would be convenient for you?

Time__________________ Date____________________ Location _____________________

RECRUIT

Yes 1
No.. 2

THANKS AND CLOSE