

Financial Services Consumer Panel

AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

Consumers' money management and financial planning



Paper 3/2005

Consumer Panel Research Paper

Consumers' money management and financial planning

Findings from the Financial Services Consumer Panel survey 2004

A key part of the work of the Financial Services Consumer Panel has always been to seek to understand consumer behaviour, and how this should be reflected in regulatory policy and practice. To this end, we commissioned BMRB to carry out a major survey of consumer attitudes to financial services, and their experiences in buying them. This is the third in a series of briefings based on the data from the survey.

Our first briefing¹ looked at the financial services products people buy and how they engage with the financial services industry. The second² explored consumer confidence in the financial services industry, and whether a lack of trust deters people from buying financial services they need. In this, our third briefing, we look further into consumers' attitudes and behaviour and how these affect their money management and financial planning. Consumers are increasingly expected to take responsibility for their own financial security, and it is important to understand the extent to which they are equipped to do so.

This research should be read in the context of the work going on at the FSA and elsewhere to improve financial capability in the UK. The adult financial capability framework³ developed by the FSA and the Basic Skills Agency identifies three key elements of financial capability: knowledge and understanding; skills and competence; and financial responsibility. Our survey has data on all three elements, and we have therefore followed the same structure in this paper.

1 *How people buy*, Consumer Panel Research Paper 01/2005

2 *Consumer confidence in the financial services industry*, Consumer Panel Research Paper 02/2005

3 *Adult financial capability framework*, Basic Skills Agency, 2004

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Headlines

- Almost 80% of the working age population now accepts that 'financial security after retirement is my own responsibility'.
- Almost 60% of adults thought they should be saving more.
- Many say they can't afford to save, with 20% of people saying they found it difficult to meet regular payments, debts or loans, or that they sometimes needed to cut back spending elsewhere to meet them.
- Young people were over-represented in all these groups, and a startling 45% of people under 25 had high levels of credit

1. Consumers feel in control of their own money in practice, but much less comfortable with the wider world of financial services.
 - Almost half find it difficult to understand financial leaflets and materials.
 - In spite of this, almost nine out of ten are 'very or fairly' confident they are in control of their finances, and three-quarters say they are good at managing money.
 - Less than a third of people actively enjoy finding out about new savings and investments schemes.
 - Less than a tenth think they already know a lot about them.
2. Most people carry out some day-to-day money management.
 - At least once a month, 90% check their bank statements, 62% work out their living expenses, and 37% plan a budget.
 - Two-thirds of people carry out at least two of these activities at least once a month.
 - People on a tight budget are more likely to keep better control of their day-to-day finances than the better off. These skills are also developed at a fairly young age, with people under 35 being significantly more likely to check their bank statements frequently.
3. By contrast, carrying out various tasks associated with longer-term financial planning is associated with relative affluence, confidence and knowledge.
 - Just over half of people review the rate of interest they are getting on their savings at least once a year: the same percentage of people review whether they could save more.

- Just over a third of people not yet retired review at least once a year whether they are saving enough for retirement, and a third also check they have the right insurance to protect them and their family if they are unable to work.
 - Only 41% of people aged under 55 carry out three or more of these tasks at least once a year, and a third carried out either none, or just one.
4. People do recognise the importance of saving.
- 79% of people in our survey aged 25 to 60 and not yet retired agreed that ‘financial security after retirement is my own responsibility’ and those who did not agree tended to be those with very low incomes who are likely to be dependent on the state in any case.
 - 77% of people in our survey were involved in some form of saving, whether this was simply putting money by or long-term saving.
 - 58% thought they should be saving more.
5. The main reason given for not saving is affordability. This is in line with the results of other surveys. However, our research shows that affordability is not all in the mind – people who said they cannot afford to save are more likely to find it difficult to meet regular payments, debts or loans, to be on a low household income, and to have high levels of debts.
6. Heavy use of credit is likely to be a major barrier to saving.
- One in five people said they found it difficult to meet regular payments, debts or loans, or sometimes needed to cut back spending elsewhere to meet them.
 - Just under a third of respondents held credit cards or store cards on which they did not generally repay the whole amount.
 - A quarter of adults were categorised as having a high level of debt overall.
 - Young people were over-represented in all these groups, and a startling 45% of people under 25 had high levels of credit.
7. We asked what people would do if they received an unexpected legacy of £20,000, and were required to invest the money rather than spend it.
- Seven out of ten consumers said they would take advice.
 - Most of those who said they would not take advice in this situation said this was because they felt they did not need advice or already had a clear idea of what they would do with the money.
 - A minority said they would not take advice because they did not trust advisers.
 - Most people who said they would take advice would go to either an independent financial adviser (IFA) or bank, with higher-income people and those in the AB socio-economic group being more likely to use IFAs. However the importance of friends and family as a source of guidance persists, particularly for young people – even if the friend or family member does not work in financial services.

Challenges for policy-makers

1. Even those consumers who present themselves as being well able to manage their everyday finances may flounder when faced with types of financial product that are new to them. This suggests that it is simply unrealistic for policy-makers to expect consumers to buy unfamiliar products without considerable guidance and support. Experience with stakeholder pensions, which have been largely ignored by the mass-market they were designed to help, bears this out. The implication is that if policyholders want consumers to make more private provision for their own financial security, by buying new types of financial products, it is essential to ensure that adequate guidance and support is available.
2. On the whole, people do what they need to do – so people on a tight budget are more likely to be good money managers, and people with lots of savings and investments are more likely to carry out tasks such as reviewing interest rates. Companies and regulators need to ensure the right guidance is available at the right time, and in the right format. For example, easy access to information on your bank balance through cash machines and on-line accounts may be one reason for the high percentage of people, particularly young people, who check their bank accounts weekly. This is a success story, and we hope companies can repeat it for other types of financial service, without leaving behind those consumers who do not have access to modern technology.
3. High levels of financial planning are associated with confident consumers who understand the information they are given. However, much of the information prescribed by regulators is provided at the point of sale: it is equally important that companies provide clear, usable information to help consumers review their existing financial arrangements. Some companies have grasped this point and improved their communications – but the standard for the industry as a whole needs to improve if the best companies are not to be tarnished by the practices of the worst.
4. Consumers generally recognise they need to save more, but affordability is a major problem, and not an imaginary one. If we expect people to save more, heavy use of credit also has to be tackled. Young people are particularly heavy users of credit, and unless this is only a temporary state of affairs, we risk producing a generation that is never able to build up regular habits of saving. Those financial groups that are both major lenders and major providers of savings products need to start to look at their customers' needs in the round – we cannot continue to urge people to save on the one hand, and offer them apparently limitless credit on the other.

5. There is clearly a strong appetite for advice, with seven out of ten people feeling they would want guidance when investing a lump sum. We are concerned that independent advice still appears to be considered as a possibility mainly by the better-off: the issue of improving access to objective advice for all must remain high on policy-makers' agenda.
6. We are also concerned by the dependence on friends and family, who may not themselves be very knowledgeable, as a source of help, for young people in particular. Those working on improving financial capability for young people should consider ways of supporting these informal advisers, as well as young people themselves.

About our research

The survey was designed to provide information about the attitudes and experience of all adults, but also to provide more detailed information about recent purchasers of financial services. 1,073 interviews were conducted by BMRB between 9th November and 19th December 2004 with adults aged 18+ living in the United Kingdom. The survey was conducted face-to-face in respondents' home using random location sampling. 753 interviews were carried out as part of a sample designed to represent the general adult population. A further 320 interviews were part of a 'boost' sample among adults who had purchased specific financial products (savings, investments, life assurance, mortgages and personal or stakeholder pensions) in the previous two years.

Knowledge and understanding

Most consumers show little interest or knowledge in financial services:

- Almost half (49%) find it difficult to understand financial leaflets and materials.

Given this picture, it is perhaps surprising to find that consumers generally present themselves as being in good control of their personal finances:

- 75% say they have a clear idea of the sorts of financial products they need.
- 88% say they are usually happy with the financial decisions they make.
- 76% say they are good at managing money.
- 88% are very or fairly confident that they are in control of their finances.
- Less than a third of people (29%) said they actively enjoy finding out about new investments and savings schemes, compared with nearly half (45%) who do not.
- Only 8% of people say they already know a lot about financial products, compared to 18% who know hardly anything. Everybody else was evenly split between those who think they know a fair amount, and those who know only a little.
- There are strong links with age and affluence: the older they are, and the higher their existing savings, the more likely they were to hold these opinions.

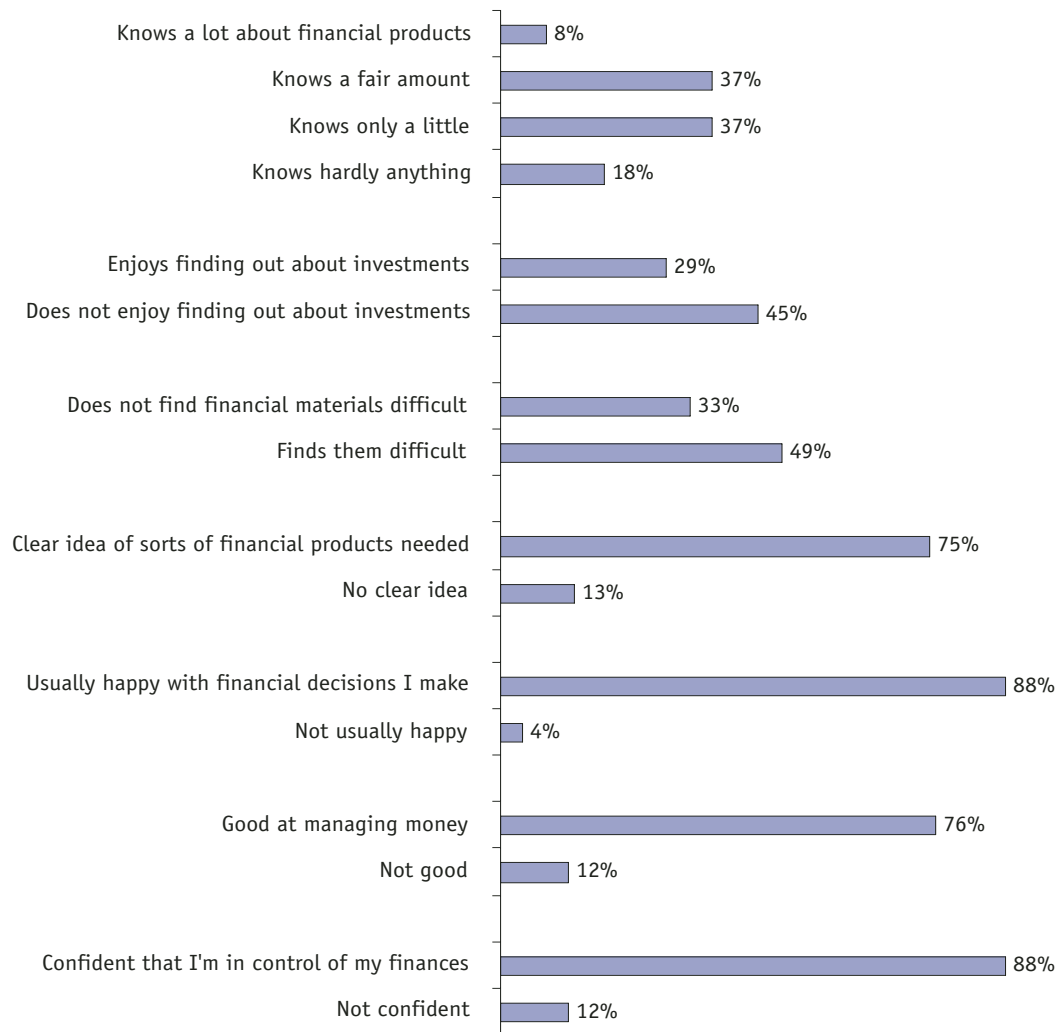
See Figure 1.

There could be many reasons for this apparent contradiction. Our survey asked people for their own perceptions of their skills and knowledge, and people may have a false confidence in their own abilities, or feel reluctant to admit they find money difficult. People may also feel in control of their normal finances, but much less capable of dealing with less 'run-of-the-mill' financial services. This apparent competence is probably sustainable as long as people stay with the types of products they are accustomed to, but when they are pushed out of their comfort zone into taking new types of financial decisions they may find their existing skills are no longer adequate.

It is possible to test this hypothesis by looking at the various money management tasks people carry out on a regular basis.

Figure 1: How consumers rate their own abilities

Base: 1,073 adults



Skills and competence

We asked a number of questions to find out what people do in practice. The answers were categorised depending on how often consumers might be expected to carry out particular tasks.

Shorter-term money management

Most people carry out some day-to-day money management. At least once a month 90% check their bank statements, 62% work out their living expenses, and 37% plan a budget. Two-thirds of people carry out at least two of these activities at least once a month. However, there is a clear link between keeping tight control and being on a tight budget: younger people, those with low incomes, lacking any product holdings and with high levels of debt were more likely to carry out these tasks regularly.

See Figure 2 and Table 1 in the Annex.

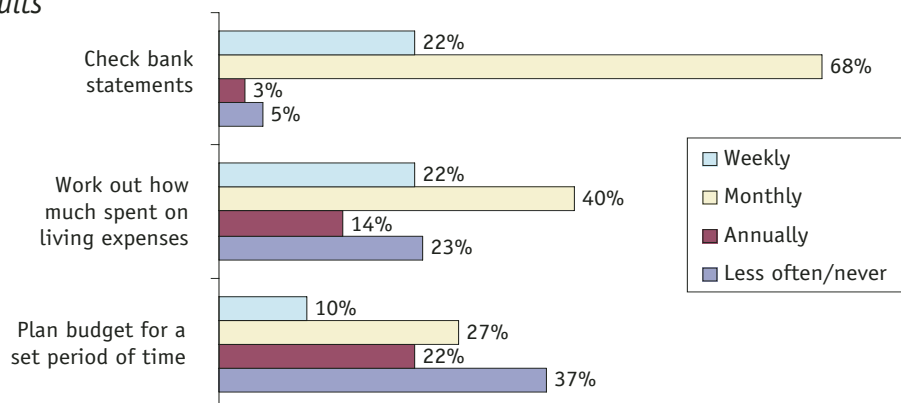
As this suggests, people do what they need to keep their heads above water financially. Probably for this reason, people with lower incomes were more likely than those with higher incomes to agree strongly that 'I am good at managing money'. They have had to be.

Our findings also show that some people develop these skills at a relatively young age. Indeed, people aged under 35 – male and female – were more likely to check their bank statements at least once a week (30%, compared with an average of 22%). Given that postal bank statements are usually sent only monthly, this suggests they are making use of the increased information available from cash machines and internet banking.

However, personal attitudes also have some impact. People who enjoy finding out about investments were more likely to be regular money managers (34% of them carried out three of these activities at least monthly, compared with 24% who said they did not enjoy finding out about investments).

Figure 2: How often do you:

Base: 1,073 adults



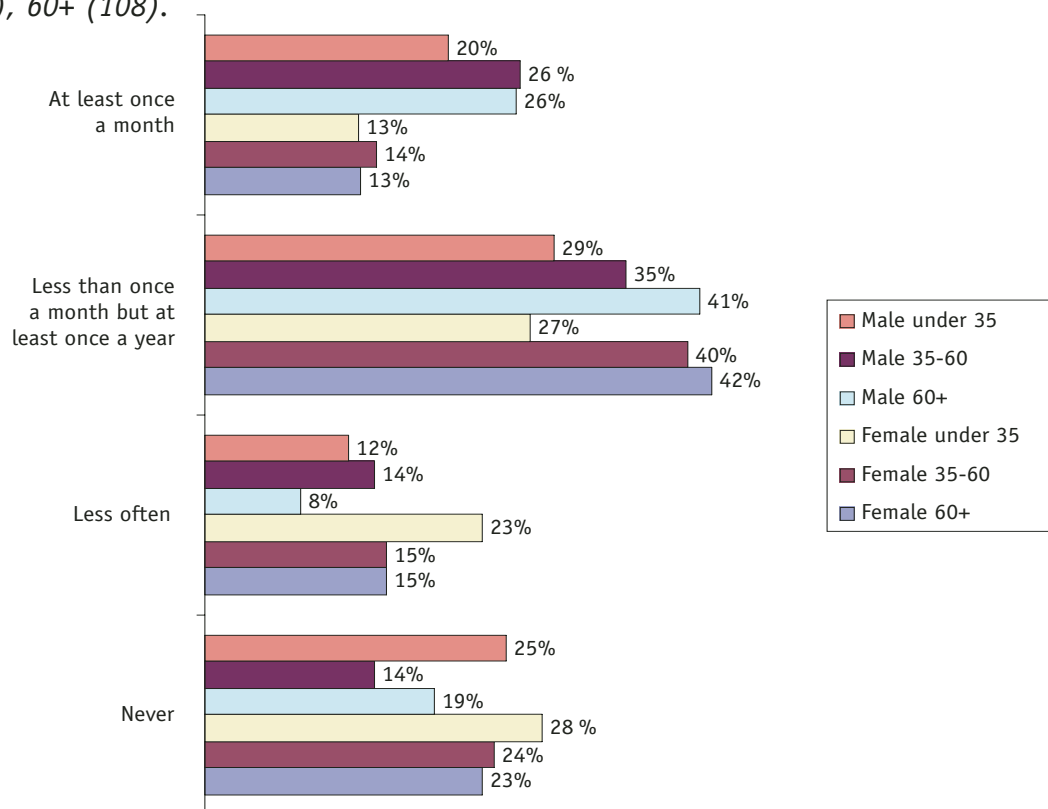
Reviewing interest rates

An important measure of financial competence is the extent to which consumers monitor their existing finances and switch to new providers when necessary. To get some handle on people's ability to do so, we asked how often they review whether any savings they have are getting the best rate of interest.

Just over a half (55%) reviewed the rate of interest at least once a year, but once again, this is linked to need, with the 'reviewers' being more likely to have higher incomes and larger savings. There is also a link with sex and age. As Figure 3 shows, men in general were much more likely to review the rate frequently, and the likelihood of reviewing also tended to increase with age. (Note that respondents were given the option to reply 'not applicable', to cater for people without savings accounts and therefore no need to review.)

Figure 3: How often do you review whether your savings are getting the best rate of interest?

Base: men aged under 35 (119), 35-60 (225), 60+ (170); women aged under 35 (189), 35-60 (261), 60+ (108).



Longer-term financial planning

However, financial planning does not consist just of reviewing interest rates. We also asked how often:

- people reviewed whether they could save more in general – 54% claimed to do so at least once a year;
- reviewed whether they were saving enough for retirement in particular – 38% of people who were not yet retired did so at least once a year

- checked whether they had the right insurance to protect them and their family if they were unable to work. 38% of people not retired did this at least once a year.

See Figure 4.

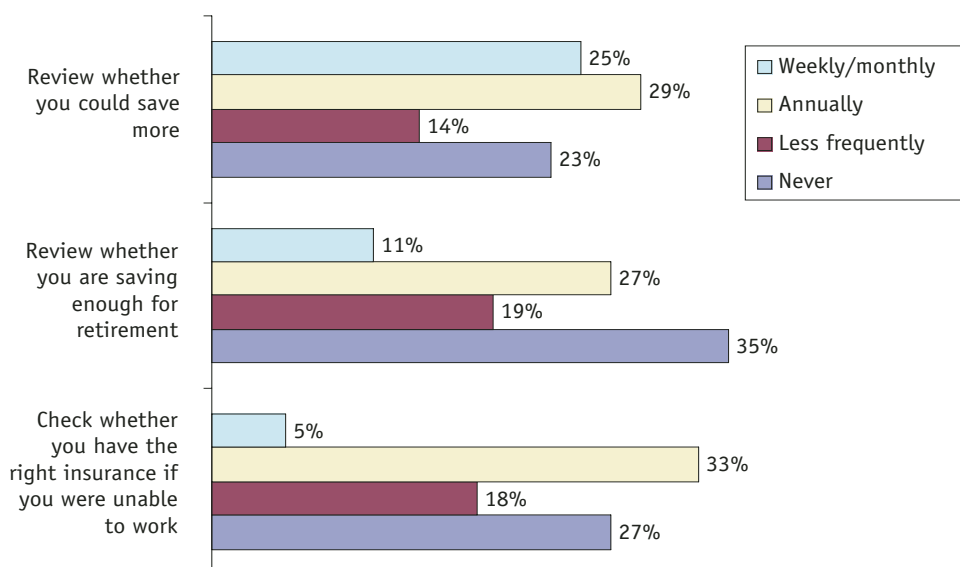
So we could see which groups are more likely to carry out these financial planning tasks, we combined the answers to all four questions into an overall figure. Note, though, because the last two questions were not relevant to most of the retired people in the survey, we looked at the results only for people aged under 55. We also felt that financial planning activities probably needed to be carried out less frequently than the tasks of day-to-day money management – at least once a year, rather than monthly.

The results showed that 41% of people under 55 carried out at least three out of four tasks - reviewing the interest rate, reviewing the level of savings both generally and for retirement, and reviewing their insurance - at least once a year. We classed this as a high level of planning. About a quarter (23%) carried out two financial planning tasks. However, a third (36%) undertook only one task, or none, which we classed as a low level of planning.

The pattern of results for financial planning is the direct reverse of that found for shorter-term money management. Whereas younger, less well-off consumers were good at managing their day-to-day finances, they were much less involved in planning for the future. Instead, high levels of longer-term planning behaviour were concentrated among middle-aged (35-55), more affluent respondents with a broad range of investments. It seems that, as with shorter-term money management, people are much more inclined to get to grips with something immediately relevant to them.

Figure 4: How often do you:

Bases: All adults (1,073); Adults not retired (800).



Barriers to financial planning

As Figure 1 showed, the people who know a lot about financial products, or find financial materials and leaflets easy to understand, are considerably outnumbered by those who find financial products difficult and mysterious.

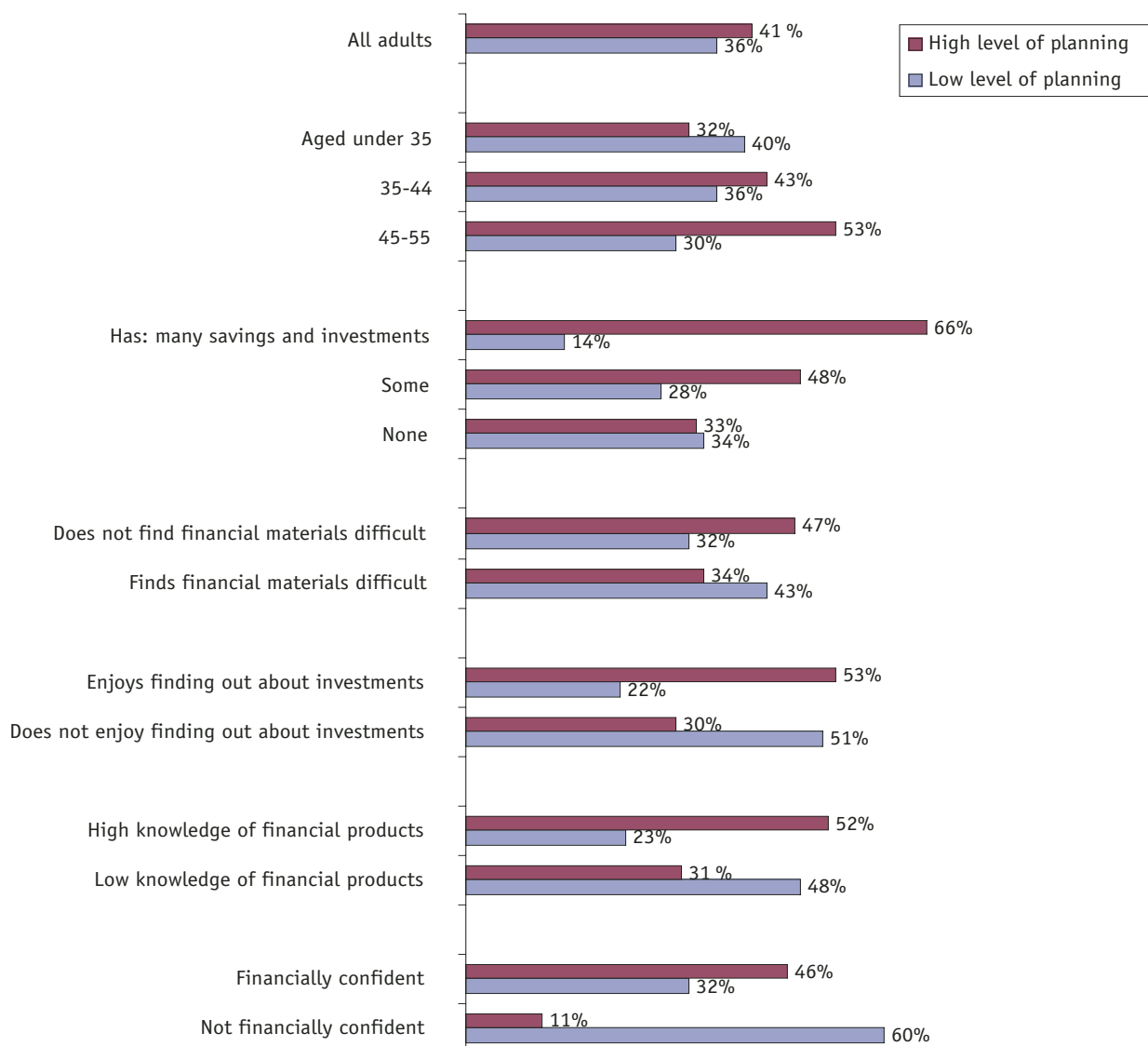
It is not surprising that these attitudes affect people’s financial planning. As Figure 5 shows, people who are confident and knowledgeable, and enjoy finding out about investments, are much more likely to carry out financial planning tasks regularly. The industry and regulators must take this into account when designing information materials – people are put off by material that confuses them, bores them, or makes them feel inadequate.

However, confidence and knowledge are themselves closely related to experience, and people with high levels of savings were more likely to feel they knew a lot. This is reflected in increasing levels of planning as people age and acquire wealth.

This presents both encouragement and a challenge. The encouragement is that the skills of financial planning can be acquired. The challenge lies in finding ways of teaching these skills other than through experience alone.

Figure 5: who are the planners?

Base: adults who gave a valid answer and were aged under 55 (535); aged under 35 (234), 35-44 (164), 45-55 (137); with many investments (50), some (318), none (163); find financial literature difficult (173), or do not (249); know a lot about products (258), or very little (277); enjoy finding out (149), or not (327); financially confident (455), or not confident (82).



People understand the importance of saving

Four out of five people in our survey (77%) are engaged in some form of saving, whether this is simply putting money aside for an emergency, or paying into a pension. Figure 6 shows how saving is strongly linked to age.

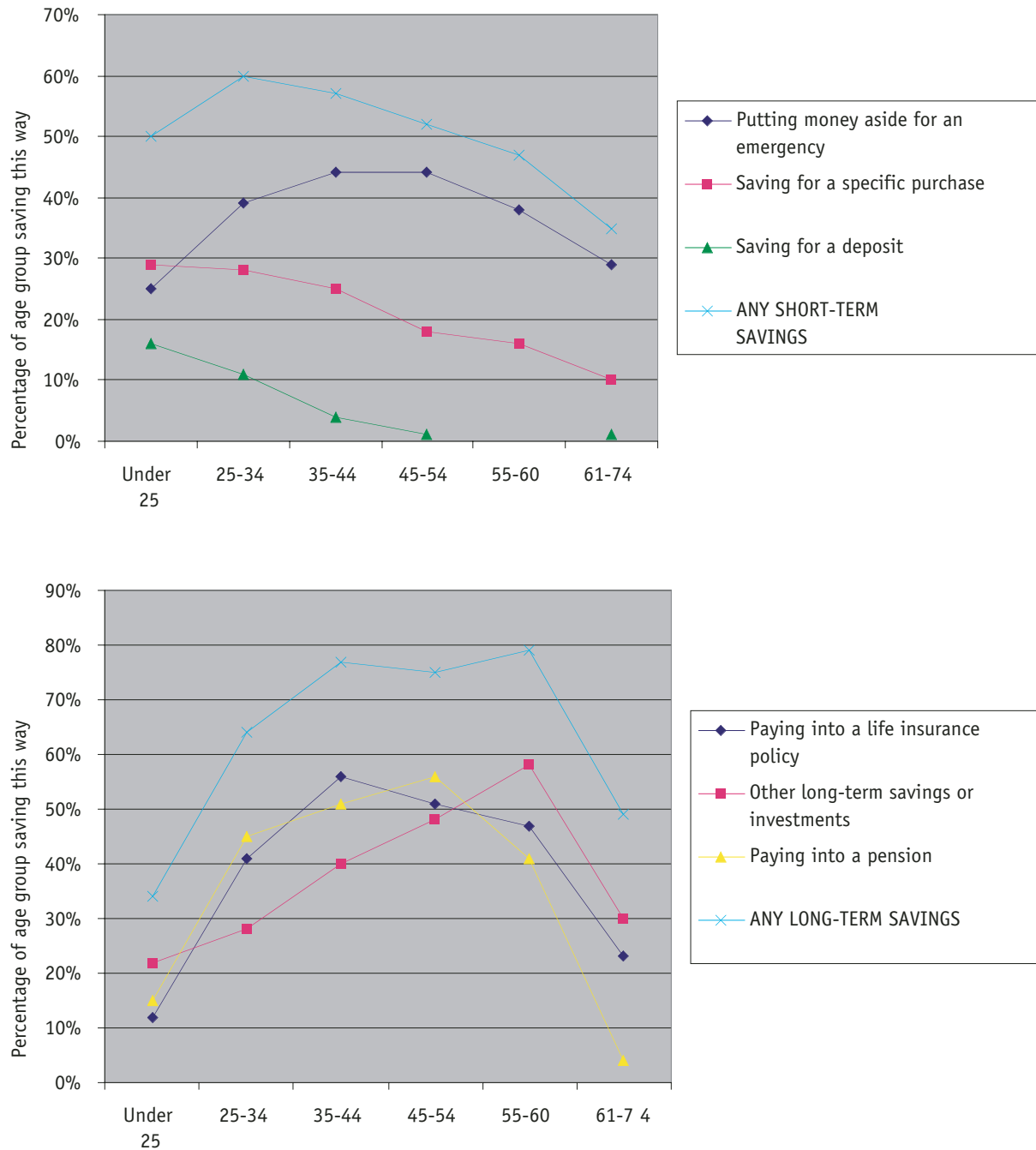
However, over one in five people (21%) told us they don't have any money to save and invest. In this group, young people are over-represented, particularly women under 35, and people with low incomes. More worryingly, however, almost three in five people in our survey (58%) thought they should be saving more than they did.

Most people also acknowledge their personal responsibility for saving. 79% of people aged 25-60 who are not yet retired agree that 'financial security after retirement is my own responsibility'. Those who disagreed included relatively high numbers of people with very low incomes and in the DE social group, who are most likely to be dependent on the state in any case.

And people do not see themselves as feckless spenders. Although almost a third (29%) agreed that they 'tend to spend money without thinking', these tended to be the very young (under 25), on the lowest rung of the income scale, with no product holdings or investments, lacking confidence in their own financial management and with high levels of debt. The question must be how far this is a problem of youth, with people learning to be more cautious as they grow up and acquire more responsibility, and how far it is due to social changes. If it is the latter, we may well be storing up problems for the future, and the need for financial education in schools becomes even more acute.

Figure 6: How types of saving change with age

Base: Aged under 25 (106); 25-34 (193); 35-44 (244); 45-54 (182); 55-60 (101); 61-74 (184).



Barriers to saving

We gave people who thought they were not saving enough the opportunity to say, in their own words, why this was. The vast majority of replies were related to a lack of affordability – for example, ‘can’t afford to’ (30%), ‘not earning enough/retired’ (15%), ‘expense of having children’ (11%). Only a minority (15%) gave replies indicating they preferred to spend rather than save (‘life’s too short’, for example). And a very low proportion volunteered that they preferred to invest any spare money in property (3%) or had to pay off debts (2%).

It is difficult to test whether this lack of affordability is actual or perceived. For example, one might expect people's income to affect affordability, but in fact the level of income made very little difference to whether people felt they should be saving more. However, people aged under 45 were particularly likely to feel they should be saving more, suggesting this is a group that perhaps has not yet established habits of saving and that may need help to do so.

However, lack of affordability is not all in the mind. For example, people who say they cannot afford to save more are more likely to find it difficult to meet regular payments, debts or loans (36%, compared with an average of 21% having difficulty). Similarly, people who said they didn't have any money to save or invest were more likely to be on a low household income (35% of people with income below £15,500 said this, compared with 9% of people with income over £25,000), and to have high levels of debt.

The impact of credit and debt

High use of credit is also likely to depress saving, even if the credit is managed effectively. In order to establish how many people are affected we asked a number of questions about their use of credit.

We asked how easy people found it to pay back any regular payments, debts or loans (after paying regular household expenses). While 43% said they could meet such payments quite comfortably, and only 5% said they found it difficult to meet them (which is in line with the results of other research⁴), a further 16% said they sometimes found it difficult to do so. This amounts to one in five people whose use of credit has a clear effect on their ability to save. Young people aged under 35 are over-represented in this group.

A further indicator of the effect of debt is the ability to pay off credit cards or store cards in full. We found that just under a third of all respondents held credit cards or store cards on which they did not generally repay the whole amount. In other words, about a third of people may find their ability to save restricted by their card usage. Again, young people are over-represented in this group; young women in particular.

We also calculated an overall measure to categorise people with particularly high debt (see the box 'Defining high debt'), in order to carry out a more detailed breakdown of the type of people who are likely to be affected. A quarter of adults were categorised as high debtors under this measure, but as Figure 7 shows, there was a clear age effect, with debt decreasing by age, and a startling 45% of people under 25 having high debt. However high debt was not confined to people with low incomes or in the DE social group, and although people with no savings and investments were much more likely than average to have high debts, 16% of people with some savings and investments, and 7% of those with many, were classified as high debtors.

4 Such as the DTI *Over-indebtedness monitoring paper* Q1 2005, reporting on a survey in 2004 by Mori Financial Services for the DTI. See section A43.

The implications of widespread use of credit are considerable. The burden of debt on younger people not only delays the onset of saving for retirement, it also raises the question of the effect on the development of savings habits. Will the heavily-indebted young manage to sort themselves out, or are we seeing a change in attitudes that will persist as these people grow older? Given that many major lenders are also major providers of savings and investments products, a consistent approach is needed from both the lending and saving arms of the industry. This would also be in companies' interests - as described in our previous briefing⁵, having high debts is also linked to a negative image of the industry.

There are also questions surrounding those cases where consumers have both heavy debts and savings, rather than using the savings to pay off the debts. Further research would be needed to establish whether this is rational in the light of people's individual circumstances, or whether people need further advice and information about paying off debt.

Defining 'high debt'

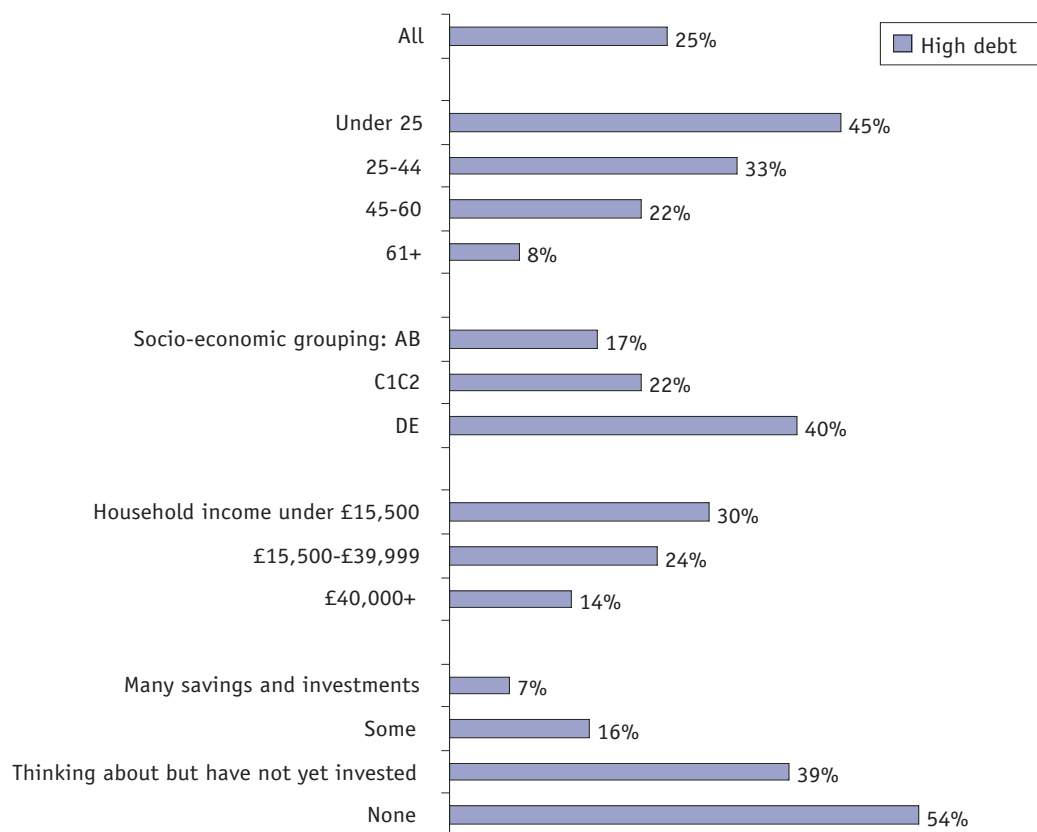
People who said they generally couldn't meet regular payments on their debts or loans, or sometimes had to cut back spending elsewhere, were automatically categorised as having high debt, as were people who had a loan or agreement that consolidated a number of debts into one. People who fell into several of the following categories were also likely to be categorised as having high debts:

- Having multiple types of credit
- Usually paying off less than the full amount owed on a credit card or store card
- Being close to the credit limit on a credit agreement and/or overdraft.

5 *Consumer confidence in the financial services industry*, Consumer Panel Research Paper, 02/2005

Figure 7: Which groups have high debt?

Base: all adults (1,073); aged under 25 (106), 25-44 (437), 45-60 (283), 61+ (245); in AB group (241), C1C2 (575), DE group (242); with household income below £15,500 (261), £15,500-£39,000 (325), above £40,000 (188); with many investments (145), some (609), thinking about (97), none (207).



Getting help

The FSA/Basic Skills Agency adult financial capability framework categorises understanding the various sources of advice and guidance available as part of financial responsibility. Our first briefing⁶ reported the experiences of consumers who had actually used advisers when buying savings, investments, life insurance or a mortgage. However we also asked a hypothetical question about whether consumers would take advice if they received an unexpected legacy of £20,000, and were required to invest the money rather than spend it.

Seven in ten consumers said they would seek advice in this situation, the proportion breaking down into 43% who would definitely do so, and 25% who would probably do so. Consumers were also asked an open question about where they would go for advice. A high proportion would go either to an independent financial adviser (IFA) or a bank, but as in previous surveys, friends and family remain a popular source of guidance.

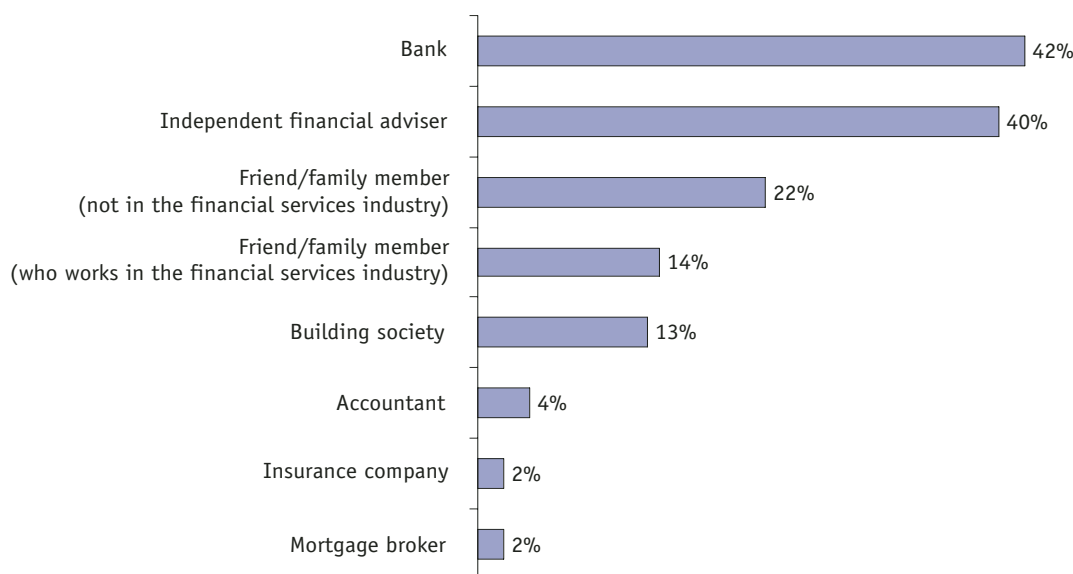
See Figure 8.

6 How People buy, Consumer Panel Research Paper 01/2005

As other surveys have also found, higher-income people were more likely to use IFAs, as were people in the AB socio-economic group: people with more modest incomes, and people with no existing financial services products, were more likely to use a bank. Young people under 25, however, were most likely to consult friends and family (48%, compared to 22% for people in general), although banks came a close second. These were the percentages for friends and family who did not work in the financial services industry – showing how important family networks are as a source of information. Young adults are a priority area for the FSA’s financial capability programme, but this suggests that families of young adults may also need support.

Figure 8: Where would people go for advice on how to invest an unexpected legacy?

Base: 823 adults who at least might seek advice



Amongst those who would not seek advice at all, men, and particularly older men, were over-represented. We asked people who said they would not take advice to tell us, in their own words, why this was. The reasons fell into three main groups:

- The most common set of reasons, cited by 57% of those would not seek advice, were to do with people feeling confident they did not need help, because of their own experience or knowledge.
- A further 21% said they would not take advice because they already had a clear idea of what they would do with the money. This included putting it in a savings account or ISA, investing in property, paying off debts or buying premium bonds.
- 13% of people who would not seek advice said this was because they did not trust advisers or had been misled in the past, or because of concern about the level of commission.

There is a risk that some of the people who think they do not need advice may have a misplaced confidence in their own abilities – we know, for example, that although most people say they shop around for financial products, in practice little shopping around takes place⁷. However, most of those who thought they did not need advice already had existing savings, and they were less likely than average to find financial materials difficult, so this risk is probably smaller than for the population in general. A greater concern is the suggestion that a lack of trust in advisers may be putting some people off taking advice. See our second briefing for more data on consumer confidence in the financial services industry.⁸

7 See *How people buy*, Consumer Panel Research Paper 01/2005

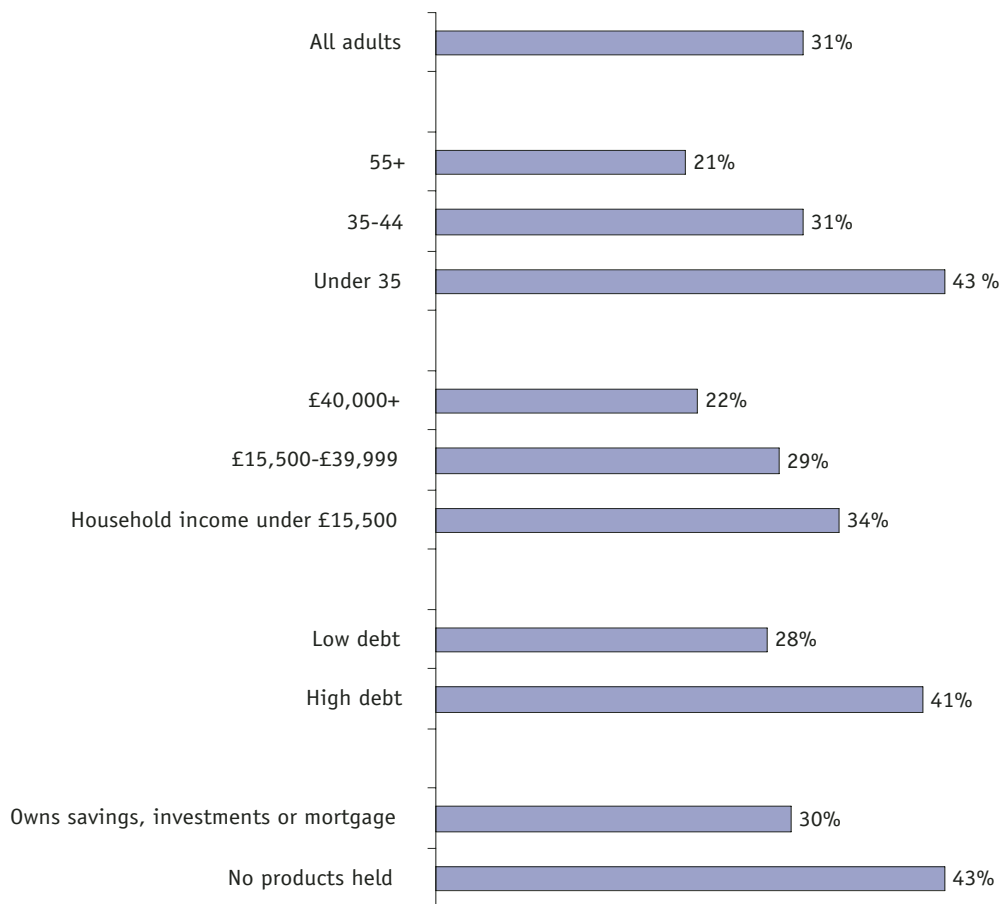
8 *Consumer confidence in the financial services industry*, Consumer Panel Research Paper 02/2005

Annex: further tables

Table 1: 'high' money managers by various subgroups

Bases: All respondents who gave valid answer to each item in scale (n=1025); <35 (297), 36-54 (377), 55+(252); income <£15500 (261), £15500-£39999 (302), £40000+ (169); High debt (254), low debt (771); Products held (933), none held (91).

The money management activities measured were checking bank statements, working out living expenses and budgeting. 'High' means carrying out three activities of money management at least once a month.



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