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What do we really know about money?

Jonathan Billing

Financial Literacy Working Party

Life Conference 2018 – 22nd November



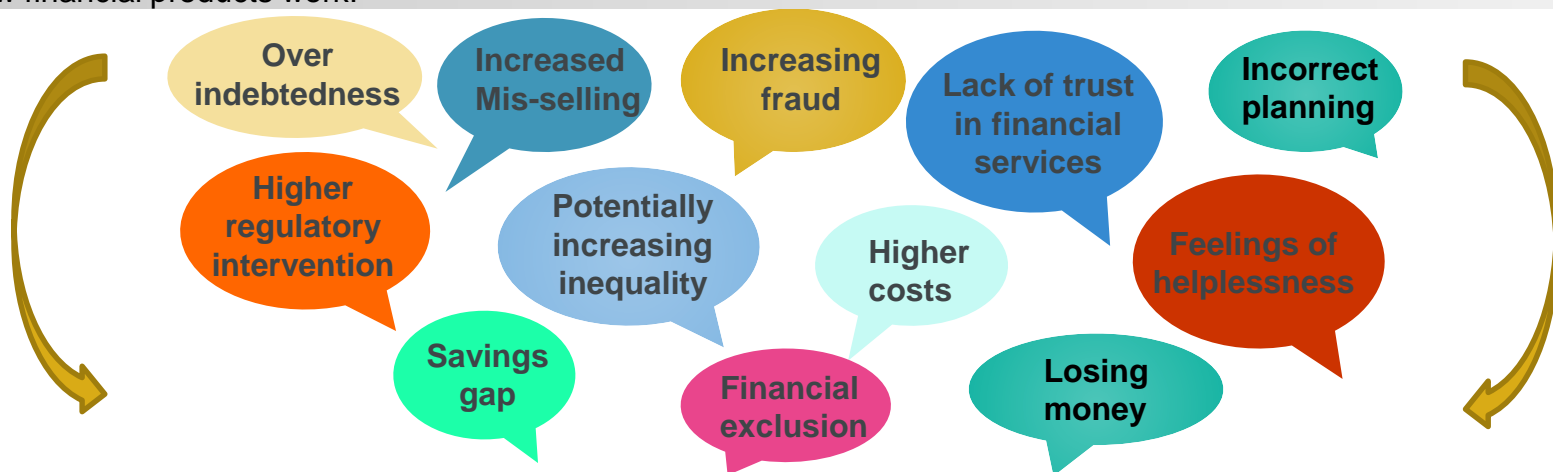
Agenda

1. The current situation
2. Working party areas of focus
3. Questions



The Current Situation

IFoA President Jane Curtis stated in 2012 that “Financial literacy for most of the UK remains poor. We have a large savings gap and a lack of trust in the financial services industry. These problems are exacerbated by gaps in the public’s economic knowledge, including how much is required to provide their expected pensions, and confusion over how financial products work.”¹



Improving financial literacy should be positive for the Life and Pensions industry. According to Jane Curtis: “a more financially literate consumer is more likely to buy the right products at the right time for the right job and to avoid being mis-sold to or failing to make sufficient financial provision for his or her future”.¹



Voting question



Should the IFoA play an active role in promoting financial literacy?

1. Yes, this is a public interest initiative
2. Possibly – depends on the proposals
3. Not at all. This is not our area



Why should the IFoA get involved?

The Working Party was set up with the key objectives of researching: the demand and need for improving financial literacy; international initiatives to improve financial literacy; and proposals for improving financial literacy



IFoA: Designer of financial products and interest in improving confidence in financial services



IFoA: Promote the need for financial engagement; public interest initiative



IFoA: Financial profession with touch points across industry; our voice counts



Key goal: demonstrate how financial literacy could be improved if the ideas and conclusions of the research are followed



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Is improved financial literacy really a good thing?

Belief in the effectiveness of financial literacy education lacks empirical support

Persistence of biases in financial decision making

For some consumers, financial education increases confidence without improving ability

Too much asymmetry of information between firms and consumers

Regulation through education model blames consumers for their poor decisions

Consumers generally do not serve as their own doctors and lawyers...

...and likewise should not serve as their own financial experts

 Improvements in financial literacy could be targeted: know that you don't know; and know when to seek advice



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Voting question



What level of financial literacy is desirable to aim for?

1. Basic level e.g. budget your money, don't expect something for nothing, map your financial future
2. Understand that you don't know. Know when to ask for advice
3. Enough such that the public can understand common financial products



Where can we help?

The OECD are proponents of improved financial literacy:

“Financial education is an effective approach to improving knowledge and behaviour.”

“On average... fewer than half of adults (48%) achieved the minimum target score on financial knowledge.”

They recognise “the importance of focusing on financial literacy from a young age.”

“The provision of high quality targeted financial education in schools and for young people and adults throughout the life-course is essential to develop knowledge and skills.”

 **In a frequently changing market place consumers of all ages can benefit from ongoing financial education**



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Voting question



Which population segments should we prioritise?

1. The young – we can help set people on the right path
2. Early adulthood – we can help bridge the gap between school age and financial independence
3. Older adults – many have limited income, and difficult pension / retirement decisions
4. All ages.



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Education Review

- ➔ Basic concepts of money are introduced early in primary education
- ➔ In secondary education, money continues to be used as a base unit across a variety of topics within the mathematics curriculum
- ➔ Financial concepts are relatively limited, with the exception of simple ‘best buy’ type scenarios, which may compare simple loans or savings, or supermarket multi-buy style deals
- ➔ There is provision for further financial education within the Citizenship curriculum. This is intended to cover functions and uses of money, budgeting, financial products and services, and the raising and usage of public money
- ➔ Beyond the high level objectives, there is no specific teaching relating to Citizenship, timetabling is limited, and it is not compulsory across all types of school. The subject is not examined.

➤ The Working Party believe the concepts included in the Citizenship subject are sound, but the impact will be ineffectual whilst covered in a subject outside of the core curriculum.



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Principles of Financial Literacy

There are a number of existing principles across a variety of publications we can consider when drafting a set of core principles of financial literacy.

Start saving young Engage with your finances Budget your money
Don't expect something for nothing Be prepared for contingencies
Make a plan Understand interest High return means high risk Set your goals
Know your take home pay Stay insured Live within your means
Get free lunches that exist when you can Your credit past is your credit future
Buy smart Be wary of advice Don't borrow what you can't repay
Plan before investing Compare interest rates Structure your savings
Know your expenses Be tax smart Pay yourself first
Know the rule of 72 Seek advice

▶ **We have condensed these into a list of seven core principles.**



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Principles of Financial Literacy

Engage with your finances

Actively managing your finances can make a huge difference across your lifetime.

Understand your budget

Have a clear picture of what comes in and what goes out, both what you have to spend and what you want to spend.

Plan for emergencies

Consider what you can cover with savings, and what you should insure against.

Shop around

Many products become worse value for money over time. Shop around regularly for good deals.

Compare the true cost of borrowing

If you choose to buy things on finance, be clear on how much extra it will cost you.

Know when to seek advice

Managing your finances can be complex, don't be afraid to seek properly regulated advice.

Be wary of unsolicited advice

Protect yourself by being aware of common tricks used by fraudsters



Voting question







What do you think about these principles?
Are they pitched at the right level?

1. Yes, these are along the right lines
2. No, the principles are too generic
3. No, too many or too complex



How do we get our messages across?

In order for the conclusions of the Working Party to have an impact, we need to consider how we communicate and implement our ideas. Ideas the group are currently exploring include:

-  Partnering with third parties who are similarly looking at addressing gaps in financial literacy
-  Help develop an education model/minimum content to be used in schools
-  Promote good practice via the 'homespun' principles at key touchpoints, e.g. on auto-enrollment into a pension, on issue of an NI number at 16
-  Simplify products or product features/marketing features (e.g. how interest is explained) for use across the profession.



Voting question



Which methods do you support for getting the message across?

1. Partnering with third parties who are similarly looking at addressing gaps in financial literacy
2. Help develop an education model/minimum content to be used in schools
3. Promote good practice via the 'homespun' principles at key touchpoints
4. Simplify products or product features/marketing features.



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Financial Literacy Working Party | Who are we?

- Chair**
- **Chris Barnard**
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 - **Tony Jeffrey**
 - **Peter Mansell**
 - **Jonathan Wright**



Questions

Comments

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