What do we really know about money?

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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.”

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.”

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

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
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.”
- “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

Source: G20/OECD INFE report on adult financial literacy in G20 countries
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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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.
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?

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