

Building financial capability in the UK



Introduction



John Tiner
Chief Executive, FSA
Chair, Financial Capability
Steering Group

Improving people's ability to make financial decisions is in everybody's interests.

It saves people money, time and a lot of worry. And, in years to come, they will benefit from the informed decisions they make now and the freedom it gives them. It helps Government and tax-payers, because people are less likely to get into financial difficulties and fall back

on State benefits. And the financial services industry will benefit from dealing with competent and confident consumers.

If people know what they want and how to get it, the market for financial services becomes less one-sided and a lot more efficient. Consumers will be able to demand better, cheaper and more appropriate products and services.

For the FSA, helping people access the education, information and advice they need to make financial decisions with confidence is central to protecting consumers, promoting public awareness and maintaining market confidence.

Of course, making the retail financial services market work better is not all down to consumers. Firms need to play their part, accepting responsibility and treating their customers fairly. The FSA is working with firms as well as consumers, but this initiative is focused on the consumer side.

As financial capability is such a huge subject, touching everyone from young people to the elderly, there are many organisations involved: Government, voluntary bodies, employers, employee and consumer organisations, financial services firms and the FSA. The best way to maximise the impact of the efforts of these organisations is to work together and towards similar objectives.

As the FSA has a statutory duty to promote public understanding of the financial system, it is widely accepted that it should have a leadership role, which is why, last November, I launched a new initiative to develop and implement a national strategy for financial capability¹. But most of the implementation will be the responsibility of other organisations and I welcome their involvement and participation.

The Financial Capability Steering Group, made up of senior and influential individuals, has now met four times and networks of other people interested in this area are growing all the time.

I have a real sense that momentum is building and we must maintain this. But we must be disciplined in where and how resources will be used. So this paper, 'Building Financial Capability in the UK', identifies seven priority areas on which we will be focusing our efforts.

I believe this paper represents a big step forward in building financial capability. We have the topics and the people. And we've marked out the way ahead so that we'll know exactly what is going to be done, by whom, when, at what cost, on whose account and with what outcome. All very promising and exciting.

A handwritten signature in black ink that reads "John Tiner". The signature is written in a cursive style and is positioned above a horizontal line.

¹ "Towards a national strategy for financial capability". FSA, November 2003.

What we want to achieve

We share a vision of better informed, educated and more confident citizens, able to take greater responsibility for their financial affairs and play a more active role in the market for financial services.

Improving the financial capability of people in the UK will be a big challenge, but the prize is enormous.

Numerous studies have shown that many people find personal finance difficult. The subject can be complex and people can find thinking about their long-term financial security dispiriting or even distressing. But most people can become more confident if enough effort is made at the right time to help them help themselves. Part of the challenge lies with relatively poor numeracy and literacy skills in a significant part of the population. Government initiatives to raise national standards of numeracy and literacy are a welcome and important foundation for efforts to improve financial capability.

Personal finance education, taught in a compelling and practical way, can make all the difference later in life. Information and advice services that are presented in the right place and at the right time to be most useful can offer support to people who might otherwise feel out of their depth or powerless. A population well-served in this way and well-versed in personal finance will be one that is more capable, competent and self-reliant.

People who understand their financial circumstances are more likely to make sensible choices and adequate provision for their futures. They'll use a range of financial services that can make their lives easier. They're more likely to have a sensible level of insurance. And they ought to reach retirement age with more to live on than the State pension.

They won't pay more interest than they need to when borrowing, or get less than they should when saving. They're less likely to find themselves tied into a product when they would be better off going elsewhere. They won't have insurance they don't need, or be exposed to risks that they don't understand.

And, because a capable customer is a less vulnerable customer, the FSA will have less need to intervene with detailed rules on financial promotions and conduct of business.

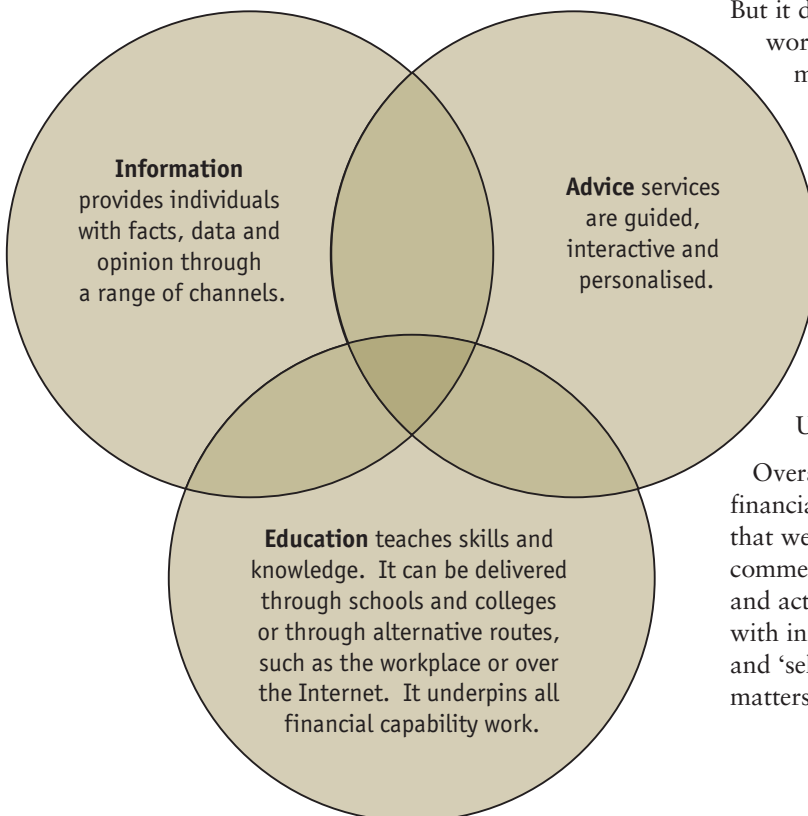
All of the above can also have benefits for other parties (including Government and a whole range of advice and support services) dealing with the consequences of poor financial decision-making. It can help reduce levels of debt, poverty, repossessions, stress, illness and even crime.



What we can do

To be a success, the national strategy for financial capability has to reach millions of individuals across the country and persuade each of them to learn more about personal finance. They have to be persuaded to acquire skills and knowledge, and then to apply them in their day-to-day financial decisions.

A successful financial capability initiative will use a range of different ways of helping people acquire skills and knowledge. This will include the use of **education, information and advice** (see diagram).



What we can do differently


The FSA and our partners in the national strategy run educational programmes, produce educational resources and provide booklets, leaflets and websites with thousands of pages of information. We also run telephone helplines, and manage a range of generic advice services from interactive websites to face-to-face advice sessions.

Doing things differently does not mean throwing away all the good work that has been done to date. But it does mean taking a good look at what has worked and what has been less successful. It will mean getting the messages right, but also focusing hard on the means of delivery so that the right messages get to the right people at the right time and in a manner which actually makes a difference to them. It will mean doing pilot projects to test our ideas and assessing them to make sure that they are leading to real and beneficial changes in behaviour. And it will mean doing this together, looking at the entire package of financial capability work being done in the UK and coordinating our efforts.

Overall, this new approach will mean treating financial capability messages less like a public good that we have a duty to provide, and more like a commercial product that we want people to adopt and act upon. That means reaching out to individuals with innovative and imaginative marketing techniques and 'selling' them the idea that personal finance matters and that it need not be difficult.

Getting started

Seven priorities for the national strategy for financial capability



Retirement




Schools



Work



Borrowing



Young Adults



Families



Advice

The responses we received to our proposals in November last year were generally enthusiastic, but a number of them cautioned against trying to address all parts of the problem at once.

We have taken this advice and one of the key tasks undertaken by the Steering Group in its first meetings has been to identify the above priorities for action.

In the future, as our work progresses, some of these may change and other priorities may arise. But we are going to start with projects based on these seven priorities.

Each project will be led by a specially convened Working Group, whose membership is set out on page 9. The Working Groups will:

- draw on the expertise and resources of partners and stakeholders to make specific proposals, building on existing good practice;
- develop baseline measures against which their progress can be measured;
- suggest pilot work where appropriate, assist in carrying it out and evaluate the results;
- develop implementation plans for new initiatives, with estimates of costs;
- oversee the roll-out of new initiatives and recommend changes where appropriate; and
- specifically take account of the needs of the financially excluded, i.e. those who may not have access to the products and services available to others.

How did we choose these seven priorities?

The Steering Group reviewed the work currently being done in this field and decided to focus on seven priority areas, taking the following factors into account.

Prevention and cure

The full impact of the financial capability initiative will only be seen over the next generation and beyond. For example, the full benefits to be gained from financial education in schools will not be felt until those children have left school and become the breadwinners, homemakers and financial decision-makers of their generation.

However, some initiatives, for example campaigns to raise understanding of specific issues related to borrowing, or relating to the launch of the Child Trust Fund, could have immediate benefits for people right now as well as leading to long-term improvement. Such quick wins will also help to build momentum.

Different audiences

We recognise that, in choosing priorities, we will not be able to reach everybody, but the projects we have selected cover significant life stages from childhood through to retirement. We are aware of the risk that some people might not find their most pressing needs addressed by any of the projects. But we will do what we can to ensure that, within each project, we take into account the needs of diverse audiences.

Identifying gaps and overlaps

There are a great many financial capability initiatives already taking place, run by a wide range of organisations. But there are both gaps and overlaps. The projects on 'Borrowing' and 'Retirement' were chosen partly in recognition that there was plenty of work being done in these areas, but that it could be coordinated better. The 'Advice' project will be examining the extent of the gap in the provision of advice and what should be done about it.

Different ways to reach people

There are many ways of getting personal finance messages through to people, including schools, the workplace or via the State benefits system. Sometimes personal contact is needed, and sometimes campaigns and materials can be 'broadcast' or delivered through electronic media. Some methods will be more effective than others, and some will be more suitable for certain people at certain times.

Using a variety of delivery mechanisms not only improves the chances of getting the message through, but also gives an opportunity to experiment and to learn which channels are most effective in different sets of circumstances.

Seizing opportunities

External events will often present opportunities to promote a particular financial capability message. We will capitalise on these. In particular, the launch of the Child Trust Fund and the Government's 'Informed Choice' initiative have provided opportunities to build two projects around 'Families' and 'Retirement'.

Innovation and creativity, and building on what we know

The national strategy will encourage innovative approaches to improving financial capability. Much of the work in the 'Young adults' and 'Advice' projects will be about discovering and developing successful methods of reaching young people and about providing advice to those who seem to be missing out.

But, as in the 'Schools' project, it's also important to build on what we know works.



The seven projects



Schools: Laying the foundations

Many of us would find personal finance less intimidating and more interesting if we had been taught the basics as children.

This project will aim to give future generations a good grounding in personal finance education before leaving school.

It will build on existing good practice, helping teachers to create opportunities for personal finance teaching in the curriculum. It will give teachers the support they need to feel confident as they prepare their pupils to be financially capable in adult life.

Young Adults: New Responsibilities

As young adults (16-25), we enter further or higher education or training, getting ourselves that first real job or aiming to do so. As we move into adulthood, we will take on responsibility for our own personal finances. We are likely to have to pay for accommodation for the first time and possibly for our education. We might be offered credit and could find ourselves in debt.

This project will help young adults face personal finance issues, maybe for the first time. And it will start by looking at the best ways of reaching young adults, recognising different needs and circumstances.



Work: Reaching people through the workplace

Recruitment, promotion, relocation, parental leave, flexible working, redundancy and retirement all have an impact on our finances and ought to be the trigger for a review of our financial arrangements.

The workplace therefore seems to be a natural channel for reaching people with specific financial capability needs.

This project will develop ways of using the workplace to deliver personal finance initiatives.

Families: Being a parent

Changes in the family, like the birth of a child, can act as the trigger for us to review our family's financial needs.

In 2005, the Government will launch the Child Trust Fund, which will provide all children born since 1 September 2002 with a sum of money to be invested until the child reaches 18. Parents will have to decide which fund to choose and how to use it to save for their child. This provides a real opportunity to talk to a new generation of parents about personal finance.

This project will build on the launch of the Child Trust Fund and develop further initiatives aimed at encouraging people to think about their needs as parents.



Borrowing: Making informed decisions

Mortgages, personal loans and credit have all become

more widely available and borrowing is a fact of life for most of us. When we take out loans it all looks manageable but a small change in our circumstances can make the difference between being able to pay and being indebted. Perhaps a job is lost, interest rates go up or house values fall.

Getting borrowing right is critical for all of us and for the economy at large. This means understanding not just what we are borrowing today but what the implications are for tomorrow.

There is a lot of work already going on in relation to financial capability and credit, debt and borrowing. This project will coordinate and pull together what is already being done and, if necessary, add new work.



Retirement: Planning ahead

Planning for retirement is one of those activities that we all know we should spend more time on, but which is easily postponed.

With an ageing population, a complex pensions market and a greater emphasis on people taking personal responsibility for their finances generally, there is a compelling case for this issue to be a priority project.

The project will cover a wide range of personal finance issues enabling everyone to make sensible plans for their retirement. It will build on the Government's 'Informed Choice' initiative, which is about enabling people to make real and informed choices on working and saving for retirement: giving

people information and ensuring that they have the tools to understand the information and that there are appropriate choices for them to make.



Advice: The role of 'generic' advice

Education and information initiatives on financial capability

are relatively well developed and we know quite a lot about what works and what doesn't. But many people think that they will never be enough and that we will need wider access to affordable advice before we really make a difference.

'Generic' advice services are personal or interactive services which help consumers to plan their finances and identify the priorities for action. They don't go as far as recommending an individual product or service, but they might help bridge the gap for consumers who need financial services and are not currently accessing them.

This project will establish what role generic advice has to play in financial capability. It will look at the nature of such advice, how it might be delivered (using people and/or technology) and how it might be paid for.



Working together

The national strategy for financial capability is based on working together to achieve more. The FSA's leadership role, in recognition of our statutory objective of promoting public understanding of the financial system, has been warmly received.

The partnership that supports the strategy is made up of all the organisations and firms represented on the Steering Group and Advisory Group, as well as those giving time and resources on the Working Groups and others who support the approach we are taking. It is an informal grouping, so we rely on the goodwill and enthusiasm of all those involved and that support has been generous. Since November last year, the number of organisations and individuals offering time, resources and people to this initiative has been tremendous.

It is our hope that the national strategy for financial capability will continue to get the enthusiastic support and commitment of a wide range of partners and that our proposals will have a degree of authority and influence that, separately, we have not had before.

Members of the **Steering Group** serve in a personal capacity.

The **Advisory Group** is made up of senior representatives of a wide range of partner organisations.

Working Group members are invited on the basis of the experience, knowledge and resources which they, or the organisation they represent, can bring to the discussions. In addition to the members listed, FSA staff sit on all the Working Groups to contribute to the work of the group and to help coordinate its work within the national strategy.

We expect the membership of the Working Groups to change from time to time, reflecting shifts in the nature of the work being done. The individuals listed here are those whom we expect to begin the work, but members will come and go as the need for their experience and expertise varies.

The Financial Capability Steering Group

- John Tiner:** Chief Executive, Financial Services Authority (Chair)
- Luqman Arnold:** Chief Executive, Abbey
- Sir David Clementi:** Chairman, Prudential
- Barry Cox:** Deputy Chairman, Channel 4
- John Cridland:** Deputy Director General, Confederation of British Industry
- John Gummer MP:** Chairman, Association of Independent Financial Advisers
- David Harker:**
Chief Executive, Citizens Advice
- Deirdre Hutton:**
Chair, National Consumer Council
- Ruth Kelly MP:**
Financial Secretary to the Treasury
- Ron Sandler:** Chairman, Personal Finance Education Group
- Malcolm Wicks MP:** Minister of State for Pensions, Department for Work & Pensions

The Financial Capability Advisory Group

- Anna Bradley:** Director, Financial Services Authority (Chair)
- H.M. Treasury
- Department for Trade & Industry
- Department for Work & Pensions
- Department for Education & Skills
- Office of Fair Trading
- Inland Revenue
- pfeg (the Personal Finance Education Group)
- Money Advice Scotland
- Chartered Insurance Institute
- British Bankers Association
- Association of British Insurers
- Council of Mortgage Lenders
- Investment Management Association
- Association of Independent Financial Advisers
- Consumers' Association
- Citizens Advice
- Standard Life
- Lloyds TSB
- Nationwide Building Society
- Aegon UK
- Children's Mutual
- Trinity Mirror
- UNIFI

Schools: Laying the foundation

CHAIR

Michael Foot, Financial Services Authority (Interim Chair)

MEMBERS

Margaret Atherton, WA Partnership

Graham Davies, Welsh Assembly Government

Keith Davis, H.M. Treasury

Carol Edwards, General Consumer Council, Northern Ireland

Jim Lally, Scottish Centre for Financial Education

Janice Lambert, Association of British Credit Unions Limited

Jane McDonagh, Royal Bank of Scotland

Martin Slater, Standard Life

Wendy van den Hende, pfg

Mela Watts, Department for Education & Skills

Young Adults: New responsibilities

CHAIR

Trevor Phillips, Commission for Racial Equality

MEMBERS

Matt Ball, MSN Money

Katherine Cowell, Department for Education & Skills

Anouschka Elliott, Citigroup

Joanna Elson, British Bankers' Association

Frances Harrison, Fairbridge West

Steve Hillman, Foyer Federation

Marilyn Holness, Roehampton University of Surrey

David Malcolm, National Union of Students

Louise Macdonald, Young Scot

Rachel McLeod, Tower Hamlets College

Suhaib Saeed, London East Learning & Skills Council

Liza Vizard, Prudential

Borrowing: Making informed decisions

CHAIR

Michael Coogan, Council of Mortgage Lenders

MEMBERS

Sue Cook, Office of Fair Trading

Jessica Davies, H.M. Treasury

Yvonne Gallacher, Money Advice Scotland

Tim Hughes, Nationwide

William Kay, The Independent

Kenny Leitch, Norwich Union

Fiona Price, Department of Trade & Industry

Robert Skinner, Money Advice Trust

Jill Stevens, Experian

Work: Reaching people through the workplace

CHAIR

Peter Ayliffe, Lloyds TSB

MEMBERS

Stephen Alambritis, Federation of Small Businesses

Mark Dawe, Department for Education & Skills

Helen Dean, Department for Work & Pensions

John Earls, UNIFI

Peter Galsworthy, Confederation of British Industry

Fay Goddard, Association of Independent Financial Advisers

Mark Myers, Lloyds TSB

Mary Rainey, Rainey Kelly Campbell Roalfe

Joanne Segars, Association of British Insurers

Esther Winter, Norwich Union

WORKING GROUPS

Retirement: Planning ahead

CHAIR

Hilary Reynolds, Department for Work & Pensions

MEMBERS

Neil Benson, Trinity Mirror

Laurie Edmans, Aegon UK

Ann-Marie Fong, National Consumer Council

Janet Hill, Department for Work & Pensions

Jackie Loughton, Department for Work & Pensions

Victoria Nye, Investment Management Association

Teresa Perchard, Citizens Advice

Advice: The role of 'generic' advice

CHAIR

Anna Bradley, Financial Services Authority

MEMBERS

Richard Cook, H.M. Treasury

Ian Patton, Department for Work & Pensions

Rachel Fry, Money Advice Trust

Chris Kenny, Association of British Insurers

Phil Northey, Abbey

David Lewis, HSBC

Nick Lord, Citizens Advice

Sandy Scott, CII

Paul Smee, Association of Independent Financial Advisers

Doug Taylor, Consumers' Association

Tim Weber, BBC News Interactive

Families: Being a parent

CHAIR

Liz Welsh, Inland Revenue

MEMBERS

Ben Aylott, Department for Work & Pensions

Jo Gibson, Inland Revenue

Silvanna Harvey, NIACE

Sarah McMillan, Department for Education & Skills

Samantha Mitchell, British Bankers' Association

Vicki Shotbolt, National Family & Parenting Institute

Antonia Wade, H.M. Treasury

David White, Children's Mutual

Claire Whyley, National Consumer Council

Measuring progress

Vision and aims

The Steering Group has identified some clear aims for the national strategy, supporting an overall vision of what they want to see achieved.

We share a vision of better informed, educated and more confident citizens, able to take greater responsibility for their financial affairs and play a more active role in the market for financial services.

Our aim is to give people the skills and knowledge they need to make sensible decisions about their money, so they can take control of their finances and demand better services from the industry.

We will do it in a way that people will understand, at a time and place when it's most useful to them.

And we will do it in a way that recognises people's differing financial circumstances.

Outcomes

Supporting this vision, the Steering Group has identified a number of 'outcomes', specifying the direction or trend they wish to encourage.

These outcomes are listed in the table opposite. They have been grouped sequentially, identifying separate sets of outcomes, starting with what we, the partners in the strategy, actually do, and finishing with what people will do differently as a result.

There is a decreasing level of control from the top of the table downwards. At the top, things happen because we do them. At the other end of the scale, the changes in behaviour are outside our direct control and might take place many years from now. Even then, it will be difficult to demonstrate any direct link between what we have done and the improvements that we see several years later.

Measurements

Where possible, we should measure progress on each of these outcomes. Sometimes it won't be possible to measure the outcome directly, but it should be possible to identify one or more surrogate measures to tell us where we start from and how far we have gone.

Many of these measures will need new research to establish where we are now. This research (or parts of it) will need to be repeated in the future to establish how much things have changed.

The FSA will carry out a comprehensive baseline survey to establish the current state of financial capability in the UK. The survey will be designed to allow each of the outcomes to be assessed now, and to be re-assessed in the future to establish whether there have been any changes. The survey will also inform evaluation of individual projects within the strategy.

Specific Outcomes

Working together	Support for the strategy is established among key partners (consumer groups, voluntary groups, Government and the financial services industry)
	Funding and other resources are put in place
	Resources spent on financial capability projects are better coordinated and spent more efficiently
	Financial capability projects are given significantly greater priority
Reaching people	There is a step-change in the number of people who are reached by financial capability initiatives
	People are reached in ways which are more suited to their needs
	People actively looking for help are offered simpler access to it, appropriate to their needs
Influencing people	Skills: People have more of the skills needed to address personal finance issues
	Knowledge and understanding: People have greater knowledge and understanding of financial issues, can better identify their needs and the products that might help meet those needs, and know when and where to seek further advice
	Awareness: People are more aware of the need to take control of their personal finances
	Confidence: People have greater confidence in their ability to take an active role in managing their financial needs
	Engagement: People are engaged and motivated to take action
Making a difference	More people review their financial situation regularly
	People are more discriminating when shopping for financial services
	Fewer people buy unsuitable financial services and products
	The financial services industry designs products that more closely meet people's needs
	Products are promoted and sold in a fashion that is more suited to people's needs
	The FSA is able to take a less interventionist approach to the regulation of the retail financial services industry



Resources

Financial capability work is currently funded by a combination of Government money, industry contributions (both as sponsors and as employers), charitable trusts and the FSA. We have been working to establish an estimate of the overall level of spending in this area. We are still collecting this information, but we have so far identified some £35-40 million per year spent on this sort of work by all parties.

At this stage we cannot say how much this might change as a result of the strategy, but it is generally accepted that a fully implemented national strategy for financial capability is likely to require additional resources.

We are expecting the Working Groups to harness the existing goodwill, enthusiasm and expertise to produce a range of practical, costed and well-justified proposals. As the Working Groups begin to make their recommendations, it will be possible to assess the best way of funding them.

In the meantime, the Steering Group will be working to develop an appropriate funding strategy.

The FSA spends almost £4 million per year on financial capability, funded, like all FSA spending, by a general levy on the regulated financial services industry. This figure is included in the £35-40 million mentioned above.

From the FSA's point of view, we see our role in leading and coordinating this work as fundamental to meeting our objectives to promote public understanding of the financial system, to protect consumers and to maintain market confidence.

It is a core activity for us, and we expect to continue to fund such activity from within the general levy we raise from the industry.

We expect that the majority of the recommendations which emerge from the Working Groups will be carried forward by other organisations, although it is possible that some will fall to the FSA, if we are uniquely placed to add value. Consistently with this, we expect our share of the total funding to remain relatively small.

Once we have a clearer idea of the nature and cost of any new work that might fall to the FSA, we will be able to plan any changes in time for the consultation exercise on the 2005/06 fees. For the 2004/05 financial year, we have said already that we will fund our investment in financial capability from our published budget.

Keep in touch

We will be posting progress reports on the strategy and the work of the Working Groups on the FSA's website at:

www.fsa.gov.uk/financial_capability

If you are involved in financial capability work and have not yet been in touch, please let us know what you are doing, so we can update our inventory and take account of your experience.

Comments on, or contributions to, the strategy can be sent via the website or by e-mail to:

financial.capability@fsa.gov.uk

or by mail to:

**Financial Capability Team
The Financial Services Authority
25 The North Colonnade
Canary Wharf
London E14 5HS**



Financial Services Authority

25 The North Colonnade
Canary Wharf
London E14 5HS

Tel: +44 (0)20 7066 1000

Fax: +44 (0)20 7066 1099

Website: www.fsa.gov.uk

ISBN: 1-84518-176-X

