

Figuring out Finance:

an overview of financial exclusion in Wales

Lindsey Kearton

November 2005

Published by:
Welsh Consumer Council
5th Floor, Longcross Court
47 Newport Road
Cardiff
CF24 0WL

November 2005
ISBN 1 903826 41 1

Price £10

Tel: 029 2025 5454
Fax: 029 2025 5464
www.wales-consumer.org.uk

Contents

Executive Summary		1
Chapter 1:	Background	5
Chapter 2:	Financial Products	
	2.1 The financial picture	7
	2.2 Shopping around	14
Chapter 3:	Money Confidence & Understanding	
	3.1 Money management	17
	3.2 Purchasing with confidence?	18
	3.3 Dealing with financial institutions	19
	3.4 Understanding of APR	21
Chapter 4:	Learning about Finance	
	4.1 How do people learn?	23
	4.2 Personal finance education at school	24
Chapter 5:	Seeking Financial Advice	
	5.1 Advice before commitment	25
	5.2 Advice providers	27
	5.3 Financial difficulties	29
Chapter 6:	Conclusion & Policy Recommendations	31
Appendix		35

Executive Summary

Developing a financially inclusive society is a key element of the social inclusion agenda. Consumers without access to certain financial products and services end up becoming excluded from many aspects of daily life that others take for granted. Without a bank account bills cost more and certain products become unaffordable, if you're denied access to mainstream credit borrowing is likely to cost more, and without savings you have no financial safety net when things go wrong.

Our survey shows that nearly nine out of ten adults in Wales believe it is important that people plan for their financial future, however, only around half appear to be making specific provisions, either for the short or long term. The results of this research indicate that a significant proportion of the population are somewhat 'disengaged' from the financial services market.

- one in seven *do not* have a bank account;
- more than half are *not* putting money into a savings account on a regular basis (i.e. at least once a month);
- only four out of ten people of working age (20 - 64), who are currently in employment (either full or part-time), have a personal pension.

Nationwide research has suggested that many consumers across the UK lack confidence when dealing with money issues. Such findings are confirmed in this survey. Almost a quarter feel scared or confused when dealing with banks, building societies and other financial institutions, and a similar proportion say they lack confidence when making decisions about purchasing a financial product, such as a mortgage, loan, personal pension or insurance.

More worrying is the fact that a fifth of adults in Wales admitted to sometimes committing themselves to a financial product without understanding all the terms and conditions. In addition, more than one in four do not know what the

term APR stands for. The growing complexity of the financial services market and the fact people are being encouraged to take more and more responsibility for their own, long-term financial future, is undoubtedly adding to the pressure.

The research has enabled us to develop a profile of those who appear to be most at risk of financial exclusion. The results do not hold many surprises – age and income are the predominant factors – the younger you are and the lower your income the more likely you are to lack confidence in money matters or be without certain financial products. Although older consumers are the least likely to be using credit products, such as a credit/store card or personal loan.

The majority of adults in Wales believe they are good at managing their money and it would appear that the older you become the more capable you feel. To what extent this is true is difficult to determine, it is likely that many people will be reluctant to say otherwise for fear of embarrassment or sense of failure.

Just over one in seven describe their money management skills as poor or very poor. Once again younger respondents, those on low or limited incomes, and those with children in the household are over-represented amongst those feeling less able to manage their money.

In order for people to make good financial decisions and be able to manage their money effectively they need to be equipped with the right skills and information. Our survey found that currently just under half of adults in Wales have taught themselves about money issues and two fifths learnt from parents or other family members. Young people in particular are more likely to have been taught how to manage their money by their family.

While in itself this reliance on informal information sources may not be a bad thing, the extent and reliability of the knowledge being passed on may be limited at a time when the financial world is continually changing. More than eight out of ten people agreed that learning about personal finances at school would have helped them feel more confident about managing their finances as adults – just one percent stated that they had learnt how to manage their money at school.

The fact that around one in four adults in Wales do not feel confident when making decisions about financial products, and one in five have committed themselves to a product without fully understanding all the terms and conditions, emphasises the need for people to have access to good financial advice before making such decisions.

The results of our survey show that not surprisingly people appear more likely to seek independent financial advice for products that involve a significant financial commitment, such as a mortgage. Of those who currently have a mortgage, more than eight out of ten sought advice beforehand, compared to just half of those with home insurance.

While a bank and/or independent financial adviser were two of the most commonly named advice sources, more than a quarter of consumers, particularly those aged 34 and under, would once again turn to family and/or friends. This was also true in times of trouble. More than six out of ten young people (aged between 16 and 24) would go to family/friends for advice if they were in financial difficulty, twice the proportion of adults overall. Nearly a quarter of adults would seek advice from a free advice giving agency or national telephone helpline (such as their local Citizens Advice Bureau, credit union or National Debtline).

This research has provided an outline of the extent of financial exclusion in Wales. While most adults in Wales describe themselves as competent and confident consumers when it comes to money matters, the results have shown a significant proportion of the population lack confidence and adequate understanding of financial issues, and those most likely to be disadvantaged are people on lower incomes and the young. The consequences of financial exclusion are wide-ranging, not only does it limit someone's ability to participate fully in society, it can also have implications for their health and general well-being.

Of particular concern is the fact that while the vast majority agree it is important for people to plan for their financial future, there is evidence to suggest many consumers are not currently doing so.

The lack of confidence and uncertainty some have expressed in money-related issues indicates that informal support and information sources, while important, are no longer sufficient, and as the financial services market becomes more complex and government pressure for more individual responsibility rises, such feelings are likely to increase. More formal systems are therefore needed to ensure that all consumers have access to accurate and reliable information to help inform their decisions about financial issues at all levels, be it everyday budgeting or their long-term financial future.

It is also important that more is done to help connect people, particularly those on low incomes, with the financial services sector if further disengagement and exclusion is to be prevented.

Chapter 1: Background

The financial services sector has become increasingly complex over the last twenty years. There are now a huge range and choice of financial products available. In addition to this, changing attitudes, Government policy and improved technology has altered the way we all deal with money issues.

Consumers are now more prepared to use credit to finance their lifestyles, be it out of necessity or desire – according to the Bank of England, at the end of July 2005, total UK personal debt stood at £1,114 billion¹. The introduction of student loans has also meant many graduates are starting their working lives with huge debts.

Fuelled by growing concerns of an over-burdened state system, unable to cope with demand, more and more people are being encouraged to take greater responsibility for their own long-term financial future, such as personal pensions and savings/investment plans.

In this complicated and ever-changing financial world a lack of basic knowledge and awareness about financial issues can lead to poor money management and bad or inappropriate financial decisions. This may result in people paying more for goods and services, having financial products that are irrelevant to their needs, or increase their risk of becoming over-indebted, which in turn puts additional strain on their personal relationships, working life and mental health.

It is therefore more important than ever that people are equipped with the skills and knowledge needed to make the right decisions about which financial products are most appropriate for them, and to help them manage their

¹ 83% of this relates to secure lending on homes (£923.8bn)

finances effectively. This becomes particularly critical when finances are limited.

In recent years there has been a growing consensus across the UK that more needs to be done to improve the financial capability of the population. In May 2004 the Financial Services Authority (FSA) launched their strategy '*Building Financial Capability in the UK*', which focuses on seven priority areas - schools, young adults, work, families, borrowing, retirement and 'generic' advice.

To date work within the schools area is the most advanced. A plan to take forward personal finance education in schools has been developed although funding has yet to be secured. Work is also underway to assess potential delivery mechanisms and funding for the provision of 'generic' financial advice i.e. helping people plan their finances without recommending an individual product or service.

In Wales, the Assembly's Over-indebtedness Review, undertaken by the Deputy Minister for Social Justice and Regeneration during 2004, highlighted a number of local initiatives and projects that are currently being run to help improve the financial capability of adults, young people and children. However, as with many community based initiatives, funding for the majority of projects is only for a set period. The importance of improving financial literacy was stressed in two of the report's recommendations.

The main aim of this research is to discover:

- to what extent people in Wales are financially excluded;
- how confident they feel when dealing with financial matters/institutions;
- where they learnt how to manage their finances;
- to what extent they seek advice before committing themselves to financial products.

Chapter 2: Financial Products

2.1 The financial picture

Current or basic bank account

The results of the survey show that the majority of adults in Wales (86%) do have a current or basic bank account. However this also implies that around one in seven people (14%) do not have this facility – this compares to 11% of British households without a current account².

Life on cash is generally regarded as being more expensive – bills cost more without the facility to pay by direct debit (paying household bills by direct debit could save the average consumer around £72 each year³); certain products become unaffordable when you're unable to spread payments over a number of weeks/months; other bargains, such as those obtained by shopping on the internet, are unavailable without a debit or credit card.

Looking at the profile of people most unlikely to have access to a bank account we can see it appears to be determined by low income and youth:

- 22% of those from social grade DE;
- 29% of those aged 16-24 years;
- 30% of those who are unemployed/seeking work⁴;

Credit/store cards

According to the Association for Payment Clearing Services (APACS) at the end of 2004 there were more credit and charge cards in the UK than people (74.3 million).

² 'Family Resources Survey Statistical Report 2003-04' (DWP, April 2005)

³ 'Why do the poor pay more .. or get less?' National Consumer Council (September 2004)

⁴ Due to the small sample size this figure should be treated with caution.

In Wales, our survey shows half of all consumers (50%) have a credit and/or store card which would appear to be fewer than the UK average – in their latest annual report APACS⁵ estimate that nearly two thirds of adults now have a credit card.

There are significant differences across the social grades – almost two thirds of ABC1 respondents (63%) have a credit/store card compared to just two fifths (40%) of C2DEs.

Previous research from the Welsh Consumer Council⁶ shows that older people (aged 60 and above) are less likely to have credit facilities than other age groups and for the majority this will be a matter of choice. Such findings were reiterated in our latest survey. 45% of people aged 65+ currently have a credit/store card compared to 57% of people from the middle age bands (25 – 54 yrs).

Personal loan

Around one in six people (16%) currently have a personal loan. We have already seen how older people are less likely to be credit users and this was confirmed by the fact that fewer than one in ten people over 55 (8%) have this facility, compared to almost a quarter of those aged between 35-54 years (24%) and just under a fifth of those aged 16-34 (18%).

Many people on low incomes may be denied access to mainstream credit facilities, such as personal loans. In addition, the terms of such agreements may be unsuitable for their needs i.e. the need for a bank account for the payment of the loan and repayments, together with inflexible repayment terms. According to our survey, less than one in ten DE consumers (9%) currently have a personal loan, compared to one in five of the other social groups (20%).

⁵ 'The UK Payments Industry: A Review of 2004', APACS (2005)

⁶ 'Credit Use in Wales', Welsh Consumer Council (December 2003)

Preparing for the Future

The vast majority of adults in Wales (89%) agree it is important that people plan for their financial future, with more than two fifths (43%) strongly agreeing with this principle.

Whilst there were no real differences in opinion across the different consumer groups the degree with which people from social grades ABC1 believed this to be important was greater – 53% strongly agreed compared to 35% of C2DEs.

In addition one in seven young people aged between 16 and 24 (14%) did not feel able to answer.

a) Savings

It was encouraging to see that more than two fifths (42%) of people have an active savings account into which they deposit money at least once a month, however this also indicates that more than half are not putting money aside on a regular basis.

This reiterates the findings of two recent nationwide surveys:

- Abbey's annual national saving survey⁷ found that over half of people living in Great Britain are failing to save regularly.
- Looking at the saving trends in Wales over the last year, according to National Savings and Investments' (NS&I) Quarterly Savings Surveys the proportion of people regularly saving in Wales has dropped from 64% in the Autumn of 2004 to just 42% in the summer of 2005, meaning Wales has the lowest number of regular savers in Great Britain (GB average = 55%). They also found while people in Wales

⁷ 'Half of Brits fail to save', This is Money.co.uk, 29th August 2005

aspire to be saving more, they are currently only managing to save around 6.4% of their income, compared to a GB average of 6.6%⁸.

The 'credit culture' of modern Britain, fuelled by the increased availability of cheap credit, has been cited as one of the main reasons for people's failure to save.

Age appears to have a limited influence on saving habits. Although the proportion of young people (16-24 year olds) saving regularly is below average, almost a third are doing so (32%).

Those on a limited income are less likely to be able to afford to put money aside every month therefore it was not unexpected that our survey showed people from the lower social grades are less likely to be regular savers – three out of ten (31%) C2DEs put money into a savings account every month, compared to more than half of ABC1s (54%).

There are organisations/initiatives around which offer savings facilities more suitable to low or unstable budgets. Credit unions are not-for-profit co-operative organisations that provide savings facilities and low-cost loans to members who share a common bond. Although research shows that only a small proportion of credit union members join a credit union because they perceive saving to be an end in itself⁹, the small-scale savings facilities they provide are particularly suited to the needs of low income consumers as they can save small amounts, in cash, as frequently as they wish. In order for them to achieve long-term sustainability raising public awareness and attracting new members is one of the key challenges facing the credit union movement in Wales – currently just 1% of the population are members.

⁸ National Savings & Investments – press release 9th September 2005

⁹ 'Saving & Borrowing: Use of the Social Fund Budgeting Loan Scheme & Community Credit Unions' Whyley, Collard & Kempson, Personal Finance Research Centre (2000)

The Saving Gateway is an initiative that the UK Government has been piloting since 2002 in partnership with Halifax Bank of Scotland. The main aim of the scheme is to provide a 'stepping stone' into saving for people living on low incomes who would otherwise have difficulty getting started and who don't benefit from existing tax relief on savings.

The accounts do not receive interest; however on maturity, after 18 months, for every £1 saved the Government will make a contribution. The scheme is currently in its second pilot phase and is running in six areas of England. The latest pilot will inform the future role matching could play in Government support for savings, particularly for those on low incomes. The evaluation findings of the first phase showed positive shifts in attitudes to saving and that most of the people who had signed up to the scheme were continuing to save¹⁰.

b) Personal Pension

Only three out of ten consumers in Wales (30%) have a personal pension (defined as including a company/works pension but excluding the state pension) – looking solely at people of working age¹¹ who are currently in employment (either full or part time), the proportion rises to 40%.

As you might expect, there was a distinct contrast across the social grades. Once again, just looking at people of working age who are currently in employment (see table 1), more than six out of ten AB consumers (62%) have a personal pension compared to just over one in five of DE consumers (22%).

With growing fears that the UK is heading for a 'pensions crisis' it is worrying to see that only around a quarter of young people i.e. aged between 20 and 34 in employment (26%) are currently putting money into a personal pension,

¹⁰ 'Incentives to save: Encouraging saving among low-income households' Final report on the Saving Gateway pilot project, Personal Finance Research Centre (March 2005)

¹¹ In this instance defined as aged between 20 and 64

compared to more than two fifths of those aged 35-54 (44%) and more than half of those aged 55-64 (51%).

Table 1: Proportion of people of working age who are in employment and whether they have a personal pension (%)

CATEGORY:	Yes	No
TOTAL:	40	60
<i>Gender</i>		
Male	42	58
Female	38	62
<i>Age</i>		
20-34 years	26	74
35-54 years	44	56
55-64 years	51	49
<i>Social Grade</i>		
AB	62	38
C1	44	56
C2	30	70
DE	22	78

Source: Welsh Consumer Council 2005

There were also fairly marked geographical differences with those in employment living in North Wales and Cardiff and South East Wales being the most likely to have this facility set-up (53% and 44% respectively) compared to just 24% of working people living in the Valleys.

Mortgage

The latest 'Living in Wales Survey'¹² shows that just over seven out of ten occupied Welsh homes are owner-occupied (71%). The proportion of owner-

¹² 'Living in Wales 2004 – Tenure', Statistics Directorate, National Assembly for Wales (September 2005)

occupied homes has grown significantly since the early 1980s, when it stood at 57%, which in part can be attributed to the introduction of Right to Buy.

Almost three-quarters of owner-occupiers had purchased their home with the assistance of a mortgage (73%), while one in five had bought the property outright.

According to our survey just over a quarter of people (26%) said they currently have a mortgage on their home. Given that, as indicated by the Council of Mortgage Lenders (CML), the average age for people to buy their first home is now 34¹³, and the 'typical' time period for most mortgages is around 25 years, it was not surprising to find the majority of people with a mortgage were aged between 25 and 54 years (81%).

Only 3% of people aged 65 and over have a mortgage on their home.

People on low incomes are traditionally less likely to own their homes. Our survey found that just one in ten people (10%) of social grade DE have a mortgage compared to a third of people (34%) from other social grades.

Home insurance

More than two fifths of adults in Wales (43%) do not have home insurance (defined as home insurance including contents)¹⁴. This rises to over two thirds of people under 34 (68%) although this is likely to reflect the large numbers of young people who may not be living independently.

Of those aged 35 and over, a third (33%) do not have home insurance (including contents). Amongst the older age groups, people aged 65 and over are the most likely not to have cover (37%).

¹³ 'First-time buyers getting older', Guardian Unlimited, 5th July 2005

¹⁴ Data on household tenure was unavailable for this survey therefore further analysis was not possible

As already stated people on low incomes are less likely to own their homes and therefore would not have the need to have home insurance per se, however as the question also included home contents insurance it is a cause for concern that less than half of C2DEs (48%) have insurance cover, compared to two thirds of ABC1s (68%).

The fact that it can often cost more to insure the contents of homes located in high risk areas may be preventing some people from getting cover.

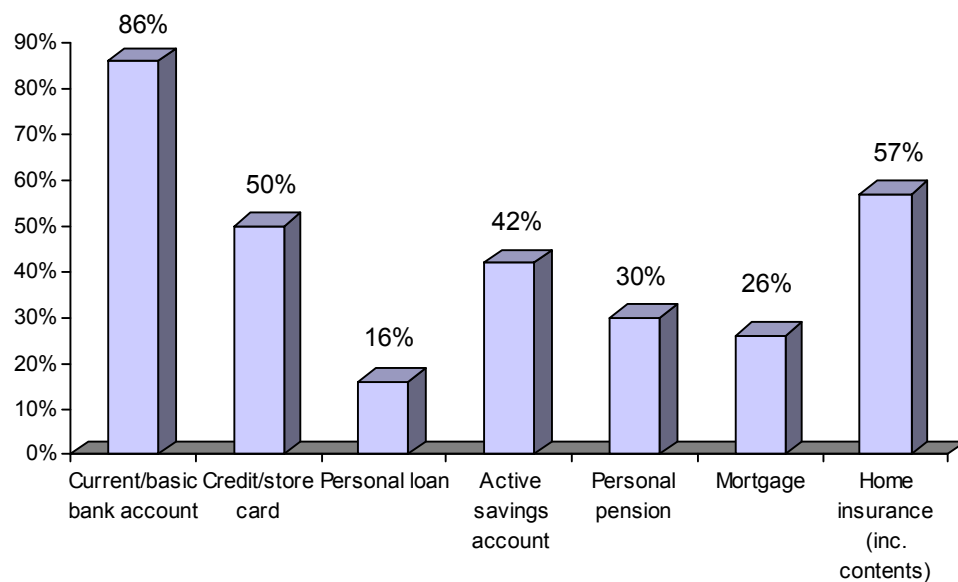


Figure 1: Proportion of people with different financial products (%)

2.2 Shopping around

Getting the best deal

The majority of adults in Wales (82%) said they like to shop around for the best deal before committing themselves to a financial product. However the extent people do this in practice may differ from their aspirations – recent UK-

wide research found that 56% of financial product purchases were made after contact with just one company¹⁵.

There was little variation in the results to our survey although those from social grades ABC1 and those from the middle age bands (35-54 years) were more likely to state that they shop around for deals – 87% and 89% respectively.

More than a quarter of those aged 16-24 (27%) felt unable to answer the question.

Swapping providers

Overall a third of consumers (33%) said they regularly (i.e. at least once a year) change their insurance provider (eg. car, travel) and/or credit card to get the best deal.

Once again those from social grades ABC1 and those aged 35-54 are more likely to swap providers on a regular basis – 39% of both groups.

There was also a degree of regional variation, with nearly half of people living in Mid/West Wales (47%) saying they change their insurance/credit card provider at least once a year, compared to a quarter of those living in West South Wales (25%).

¹⁵ 'How people buy: Consumer Panel Research Paper' (Paper 1/2005), Financial Services Consumer Panel, July 2005

Chapter 3: Money Confidence & Understanding

To an extent life experience is likely to play a role in determining people's levels of confidence in financial issues. The results of our research appear to confirm this.

3.1 Money management

A recent GB-wide survey undertaken by the Financial Services Authority (FSA)¹⁶ found that more than a quarter of British adults (28%) don't think they are good at managing their money.

It was, therefore, encouraging to see that according to our survey, the majority of adults in Wales (82%) do think they are either good or very good at money management. It would also appear that the older you become the more capable you feel – 94% of people aged 65 and over believe they are good at managing their money, compared to just 68% of under 25s.

Just over one in seven (15%) people described their money management skills as being poor or very poor.

Looking at the profile of those who felt **less able** to manage their money, once again low income and age appear to be contributing factors:

- 20% of men;
- 18% of those from social grade C2DE;
- 30% of those aged 16 to 24;
- 21% of those with children in the household;
- 32% of those who are unemployed/seeking work⁴;
- 28% of full time students⁴.

¹⁶ 'Financial Capability: Consumers' views on developing their financial capabilities through schools and workplaces', FSA (May 2004)

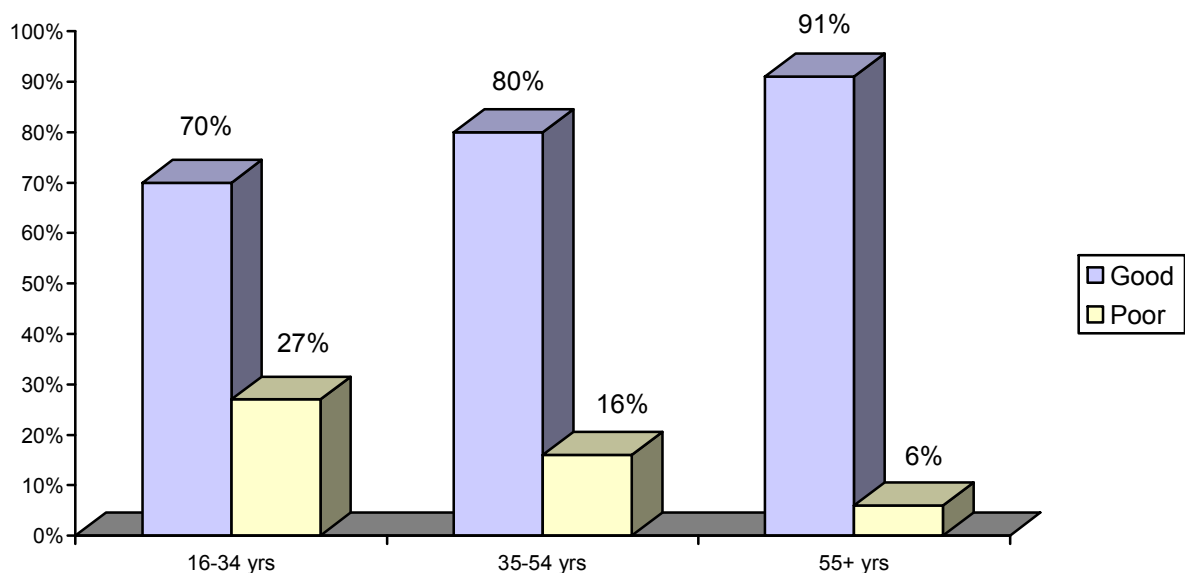


Figure 2: Perceptions of money management skills by age (%)

3.2 Purchasing with confidence?

Having looked at people's own assessment of their ability to manage their money, we then asked to what extent they felt confident when making decisions about purchasing financial products (such as a mortgage, loan, insurance or personal pension).

Whereas nearly seven out of ten (69%) agreed they feel confident when making this type of decision, almost a quarter of respondents do not (23%).

Of particular concern is the fact that a fifth of people (20%) said they sometimes commit themselves to a financial product without understanding all the terms and conditions (such as interest rates, repayment levels and the overall cost).

A third of those aged 34 and under (33%) would not feel confident in making a decision about purchasing a financial product, compared to one in six (17%) of those aged 55 and over. Many young people may not perceive themselves as having the need for a mortgage or personal pension at the present time –

one in six (17%) felt unable to answer the question - however it may be a worrying indication of their ability to make such decisions in the future.

A quarter (25%) of people aged 16 to 34 admitted to committing themselves to a financial product without understanding all the terms and conditions, almost twice the proportion of people aged 55 and over (13%).

Not surprisingly, almost a third of DE consumers (32%) would not feel confident when making a purchasing decision relating to a financial product and just over a fifth (21%) have committed themselves to such a product without understanding the terms and conditions of the agreement.

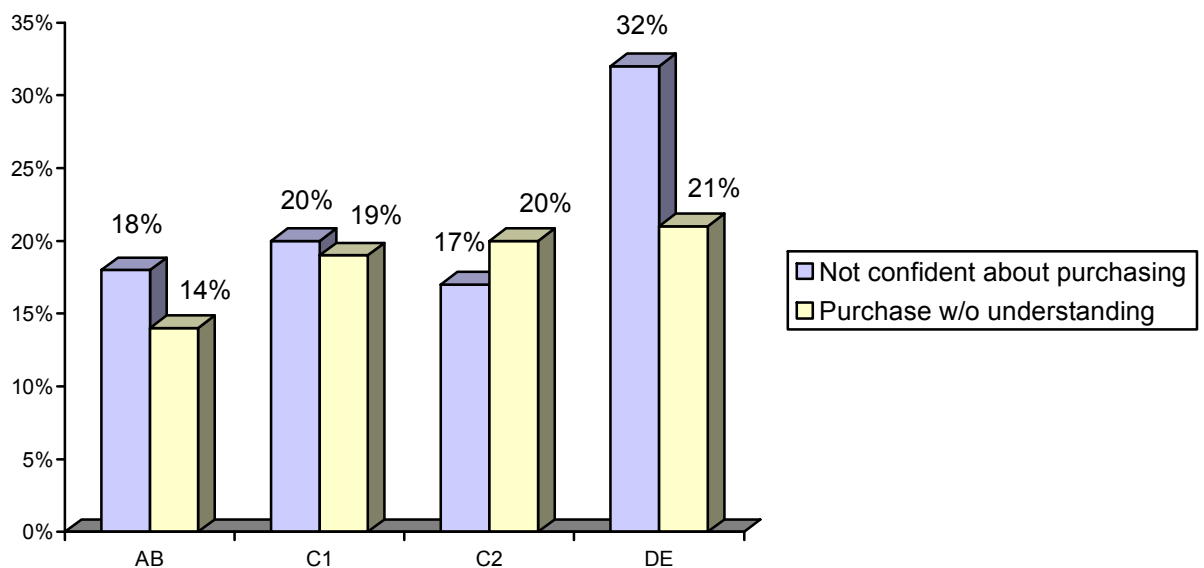


Figure 3: Confidence in purchasing financial products (%)

3.3 Dealing with financial institutions

Evidence suggests that some people can feel quite daunted by the prospect of communicating with financial institutions. The results of our survey show that while more than seven out of ten adults in Wales (71%) said they do not feel scared and/or confused when dealing with banks, building societies and

other financial establishments, almost a quarter of people do (24%) – similar to the British average (23%)¹⁷.

Just over three quarters of people aged 35 and over (76%) do not feel scared and/or confused when contacting banks and other financial institutions. Alternatively more than two fifths of people aged between 16 and 24 (41%) admitted to feeling uncertain in such circumstances.

It appears that those who generally lack confidence in money matters are most likely to find financial organisations intimidating, this includes:

- 27% of women;
- 29% of those from social grade C2DE;
- 36% of those who are unemployed/seeking work⁴;
- 29% of those who are widowed/divorced/separated.

Table 2: 'I feel scared/confused when dealing with banks, building societies and other financial firms' (%)

CATEGORY:	Agree	Disagree
TOTAL:	24	71
<i>Gender</i>		
Male	20	75
Female	27	66
<i>Age</i>		
16-34 years	33	58
35-54 years	21	75
55+ years	19	76
<i>Social Grade</i>		
ABC1	18	78
C2DE	29	65

Source: Welsh Consumer Council 2005

¹⁷ Op cit 16

3.4 Understanding of APR

Nearly six out of ten adults (57%) stated correctly that APR stands for Annual Percentage Rate, however more than a quarter of respondents (27%) did not know what the term meant.

There was a significant variation in the correct understanding amongst different consumer groups.

- Men are slightly more likely to know than women (61% and 53% respectively);
- Nearly two thirds of ABC1s (65%) know what APR means compared to half of C2DEs (50%);
- People from the middle age bands (35-54 year olds) are more likely to know than those under 34 (65% and 48% respectively).

Almost half of those aged 16-24 (49%) did not know what APR stands for and likewise nearly two fifths of those aged 65+ (38%) were unsure of the term.

People from social grade DE were the least likely of all the income groups to know what APR means – 39% felt unable to answer.

Table 3: Proportion of adults in Wales who know correctly stated APR stands for Annual Percentage Rate (%)

CATEGORY:	Annual Percentage Rate
TOTAL:	57
<i>Gender</i>	
Male	61
Female	53
<i>Age</i>	
16-34 years	48
35-54 years	65
55+ years	56
<i>Social Grade</i>	
ABC1	65
C2DE	50

Source: Welsh Consumer Council 2005

Chapter 4: Learning about Finance

As already mentioned when people don't know how to manage their money effectively it can have a significant impact on their lives. So how do people currently learn about money issues?

4.1 How do people learn?

When asked where they had personally learnt how to manage their money and personal finances almost half of the adults in Wales (47%) said they are self-taught, while a further two-fifths (40%) had learnt from parents or another family member/guardian. Just 1% mentioned their school - perhaps surprisingly most of these were aged 65 and over.

The older people are the more likely they are to say they are self-taught – 55% of those aged 55 and over compared to 35% of 16-34 year olds. Similarly younger respondents are more likely to have been taught by their parents/family.

There was only a slight variation in where people had learnt how to manage their money across the different social grades.

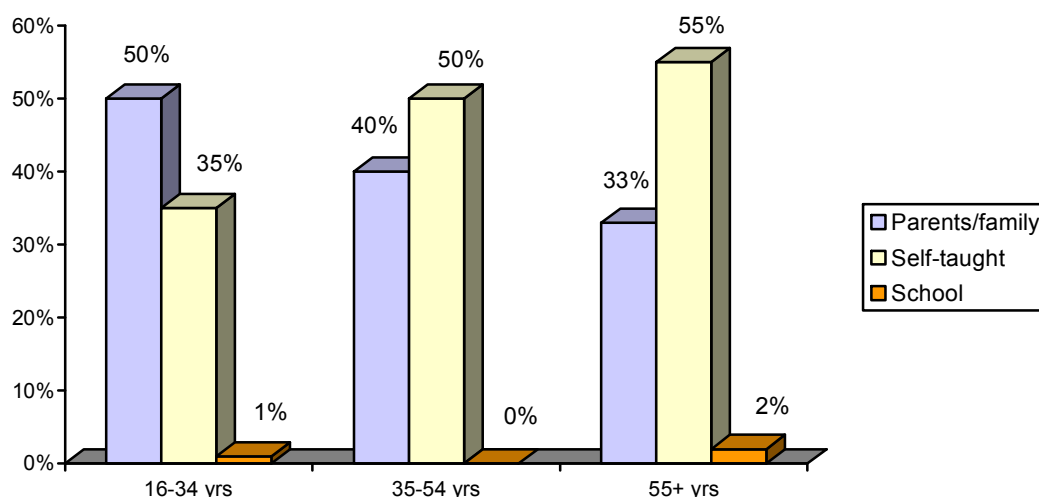


Figure 4: Where people learnt how to manage their money (%)

A survey of parents during August 2005¹⁸ found that while the vast majority viewed financial education as a parent's duty (94%), less than three-quarters have actually talked to their children about money (74%), and of these, just under half have talked about budgeting (48%), while just over a third have talked about debt-related issues (35%). It is likely that their own lack of knowledge and understanding about money matters is holding parents back from talking to their children about certain key areas.

4.2 Personal finance education at school

The majority of people (83%) agree that learning about personal finances at school would have helped them feel more confident about managing their finances as an adult, with more than two fifths (45%) agreeing strongly with the statement.

Views on this issue were fairly consistent for all groups of consumers, irrespective of their social grade, age or gender.

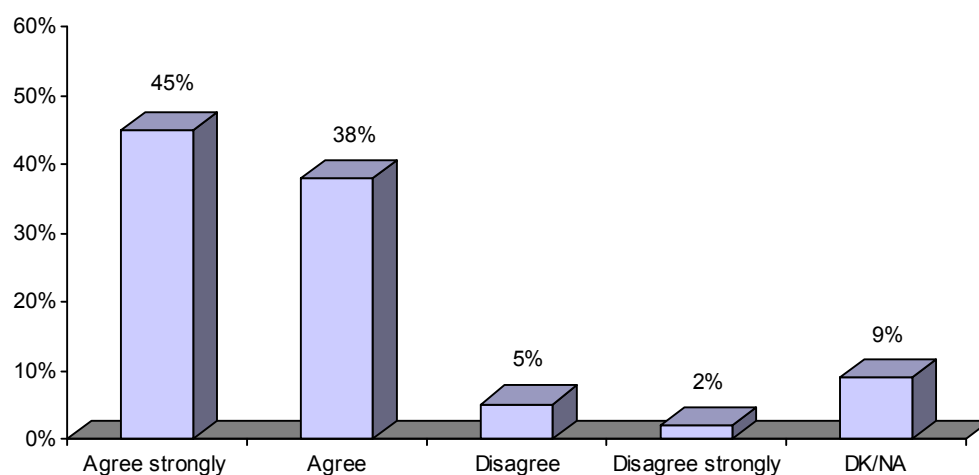


Figure 5: The extent people believe learning about personal finances at school would have helped them feel more confident about managing their money (%)

¹⁸ 'Financial Education Falters Despite Parents' Best Intentions', National Savings & Investments (NS&I) press release, 9th September 2005

Chapter 5: Seeking Financial Advice

Earlier results showed that nearly a quarter of adults in Wales said they lack confidence when making decisions about purchasing financial products and, more worryingly, a fifth admitted that sometimes they've committed themselves to a financial product without understanding all the terms and conditions.

This emphasises both the importance of, and need for, people to have access to good financial advice before making such decisions.

5.1 Advice before commitment

The extent to which people have sought, or would consider seeking, independent financial advice before committing to a number of specified financial products was assessed as part of this survey. Not surprisingly it would appear that people are more likely to seek advice for products which involve a significant financial commitment, such as a mortgage or personal pension (66% and 63% respectively) – six out of ten (60%) would also consider seeking independent advice on savings and/or investments, while only half would look for advice before committing themselves to home and/or life insurance.

More than a quarter of respondents (26%) have not sought, or would not consider seeking, independent financial advice, or they failed to answer the question, including:

- 34% of those from social grade DE;
- 36% of those living in the Valleys;
- 37% of those aged 65 and over: 32% of those aged 16-24.

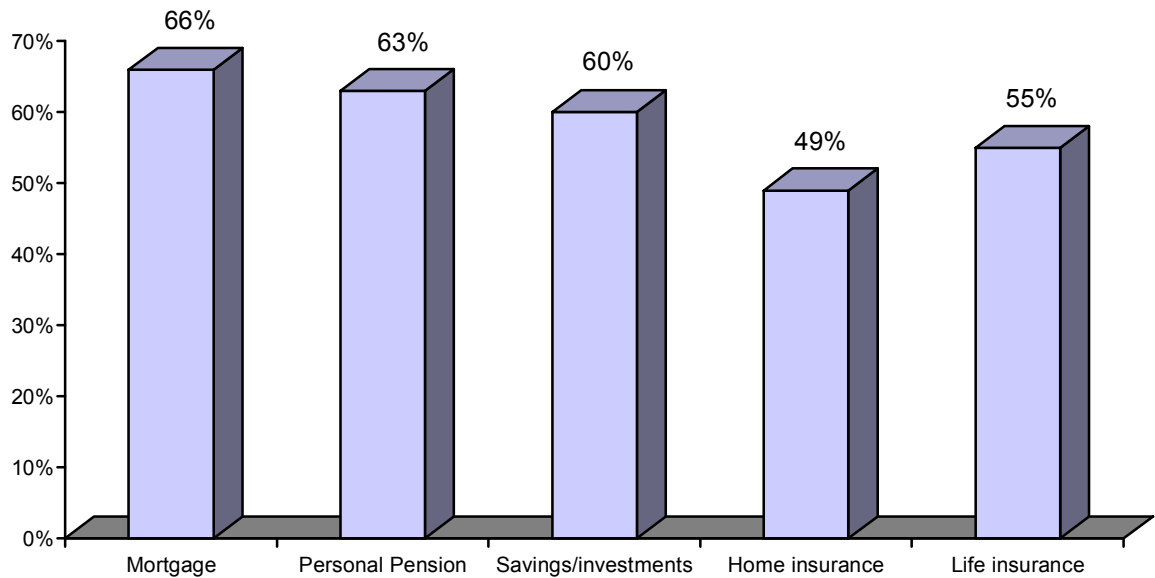


Figure 6: Proportion of people who have sought/would consider seeking independent financial advice before committing to various products (%)

Concentrating solely on those who already have various financial products, figure 7 shows the proportion who have sought, or would consider seeking, independent financial advice, and those who have/would not. Taking out a mortgage is likely to be one of the biggest loans people will commit to, therefore it is reassuring to see that the majority of people who have a mortgage (83%) sought advice beforehand.

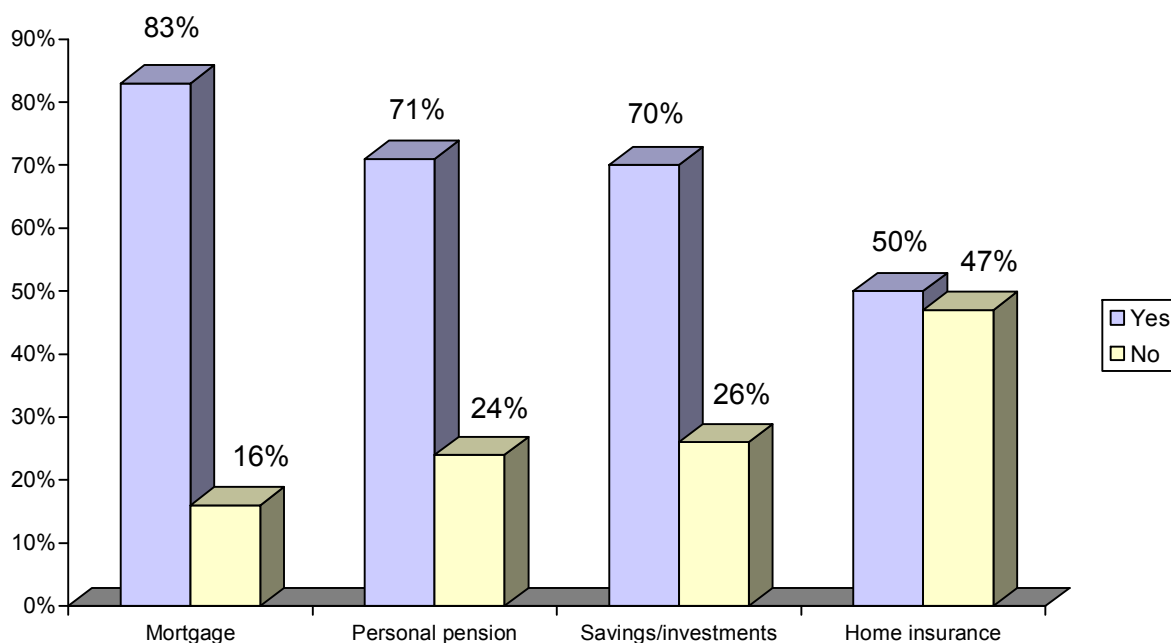


Figure 7: People with various financial products and whether they have sought/would consider seeking independent financial advice (%)

5.2 Advice providers

When asked where they would *normally* go for advice on financial products, such as a mortgage, personal pension, savings plan or insurance, a number of organisations were specified.

Table 4 shows the three most popular choices were:

- a bank (44%);
- an independent financial adviser (28%);
- family/friends (27%).

Recent UK-wide research commissioned by the Financial Services Consumer Panel¹⁹ showed the degree of consumer confusion surrounding the services provided by independent financial advisers. Almost a third (29%) believed the

¹⁹ Op cit 15

adviser was only able to advise on a restricted range of companies' products and one in five (20%) who had used an independent financial adviser either thought there was no commission/fee or didn't know how they had paid for the service.

Table 4: Type of organisations people would normally go to for advice on financial products (%)

Multiple response/ unprompted	%
CATEGORY:	
<i>Large financial institution:</i>	
Bank	44
Building Society	13
Other financial firm	3
<i>Small/medium company:</i>	
Independent financial adviser	28
Accountant	3
Solicitor	1
<i>Voluntary sector:</i>	
<i>Citizens Advice Bureau; Credit Union; Community Group</i>	4
<i>Informal sources:</i>	
Family/friends	27
Internet	5
Media	2

Source: Welsh Consumer Council 2005

On the whole there was little variation across the social grades, although DE consumers were the least likely to go to an independent financial adviser (15% - compared to 38% of ABs).

The choice of advice provider did vary across the regions – those living in Mid/West Wales and West South Wales were the most likely to go to a bank (54% and 51% respectively), while people living in the Valleys and Cardiff and South East Wales were most likely to ask friends and family for advice (35% and 32% respectively).

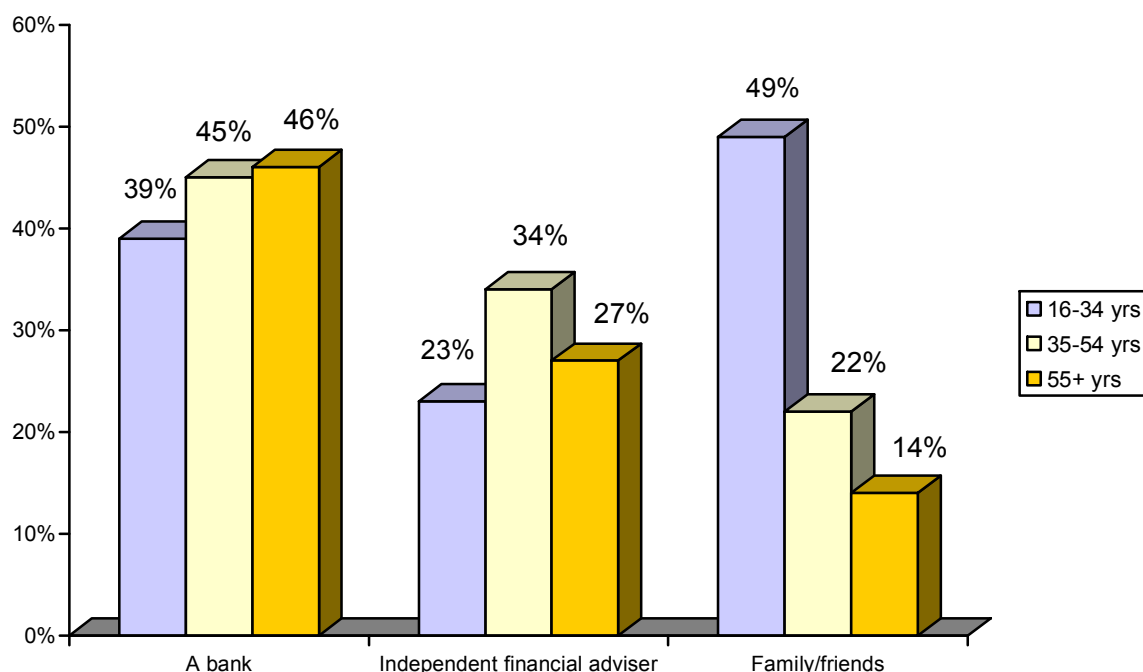


Figure 8: Where people would normally go for advice by age (%)

The above illustration also shows that young people are more likely to rely on the advice of family and friends than older consumers.

5.3 Financial difficulties

The reasons why people experience financial difficulties or fall into debt vary. Frequently, it can be attributed to a number of inter-related causes. In a previous survey in Wales²⁰, the most common 'triggers' cited by those in arrears and/or financial difficulties were:

- Loss of income (due to redundancy, relationship breakdown, illness or other loss of income);
- Living on a low income;
- Increased/unexpected expenses;
- Over-commitment.

²⁰ 'Credit Use in Wales', Welsh Consumer Council (December 2003)

Evidence suggests that feelings of failure and embarrassment can mean people are reluctant to recognise that they are in trouble financially, meaning they often won't seek advice until their situation has become critical.

Looking at debt specific issues was out of the scope of this research however when people were asked where they would go for advice if they ever found themselves in financial difficulty the four most frequently named providers/sources were ²¹:

- A bank, building society or other financial firm (34%);
- Family/friends (30%);
- A free advice giving agency/national telephone helpline²² (23%);
- An independent financial adviser (16%).

It would seem that DE consumers are more likely to turn to family or friends (36%) or a free advice giving agency (26%) than other social groups.

Six out of ten 16-24 year olds (60%) would go to family/friends for advice if they were in financial difficulty, compared to just a fifth of those aged 55 and over (19%), who appeared to be more likely to go to a bank or other financial institution (43%).

²¹ It should be noted that the responses were spontaneous and people were allowed to provide more than one answer to the question

²² Such as Citizens Advice Bureau; credit union; National Debtline; Consumer Credit Counselling Service; local community group

Chapter 6: Conclusion & Policy Recommendations

This research has provided an outline of the extent of financial exclusion in Wales. While most adults in Wales describe themselves as competent and confident consumers when it comes to money matters, the results have shown a significant proportion of the population lack confidence and adequate understanding of financial issues, and those most likely to be disadvantaged are people on lower incomes and the young. The consequences of financial exclusion are wide-ranging, not only does it limit someone's ability to participate fully in society, it can also have implications for their health and general well-being.

Of particular concern is the fact that while the vast majority agree it is important for people to plan for their financial future, there is evidence to suggest many consumers are not currently doing so.

The lack of confidence and uncertainty some have expressed in money-related issues indicates that informal support and information sources, while important, are no longer sufficient, and as the financial services market becomes more complex and government pressure for more individual responsibility rises, such feelings are likely to increase. More formal systems are therefore needed to ensure that all consumers have access to accurate and reliable information to help inform their decisions about financial issues at all levels, be it everyday budgeting or their long-term financial future.

It is also important that more is done to help connect people, particularly those on low incomes, with the financial services sector if further disengagement and exclusion is to be prevented.

In light of the findings of this survey the Welsh Consumer Council makes the following policy recommendations.

1. The Welsh Consumer Council strongly supports the Welsh Assembly Government's recognition of the importance of improving financial literacy in schools, following the Deputy Minister for Social Justice and Regeneration's recent Review of Over-indebtedness in Wales, and will be monitoring with particular interest the development of the Action Plan to take forward the implementation of the recommendations relating to financial literacy.
2. The Welsh Assembly Government and ACCAC should ensure that the current review of the curriculum in Wales places greater emphasis on financial literacy by making personal finance education a compulsory element – drawing on existing expertise and best practice to ensure consistent and high quality provision across Wales.

Opportunities should be sought to place personal finance education within existing subject areas, such as mathematics, Information and Communication Technology (ICT), Personal and Social Education (PSE), Work-Related Education (WRE), and Careers Education and Guidance (CEG).

3. The Welsh Assembly Government should also ensure that there is sufficient, sustainable funding for financial literacy work outside the classroom, particularly work which targets other vulnerable groups such as people on low incomes and young people.

The prospect of working with partners in the financial services industry should be explored more actively.

4. Working with the Financial Services Authority (FSA) the Welsh Assembly should explore opportunities for developing the provision of free 'generic' financial advice for consumers - building on the experiences of existing pilot projects and examples of good practice throughout the UK.

5. The financial services industry should provide clear, simple yet comprehensive information and literature about financial products, in order that people are able to make informed decisions about the most appropriate products for their needs.

In addition all banks and other financial institutions should be encouraged to act with greater social responsibility.

6. The UK Government, in particular HM Treasury (HMT), should promote the benefits and importance of saving and investing more widely.

More emphasis should be placed on developing alternative products and incentives to save which are more suitable to those on low incomes, eg. being able to pay in small amounts, at irregular intervals.

Existing products and services such as credit unions, the Saving Gateway (currently a pilot scheme), and the Child Trust Fund, should be more widely and actively promoted.

7. The UK Government (in particular HM Treasury and the Department for Work and Pensions) and the financial services industry should develop a more consumer-focussed pensions framework that includes simplified and secure schemes, supported by clear but comprehensive advice, in order that people can make informed decisions about their retirement.

Appendix

Beaufort Omnibus Survey

Fieldwork was subcontracted to Beaufort Research Ltd of Cardiff using the Beaufort Welsh Omnibus survey.

The Omnibus survey is designed to be representative of the adult population resident in Wales aged 16 and over. The primary sampling unit is Unitary Authority. Within unitary authority a series of sampling points are selected such that a minimum of 68 interviewing points throughout the Principality are selected with probability proportional to resident population.

Within each sampling point, interlocking quota controls of age and social class within sex are employed for the selection of respondents.

Quotas are set to reflect the demographic profile of Welsh residents and no more than one person per household is interviewed. A fresh sample is selected for each survey within substantially the same interviewing locations.

Interviews are conducted face to face in the homes of respondents. Beaufort's experienced fieldworkers are used with postal and telephone back-checking in accordance with BS7911.

A total of 1001 interviews were completed between the period of 3rd – 10th March 2005 and subsequently analysed.

Regions used in presenting data comprised of groups of unitary authority as listed below:

<i>Region:</i>	<i>Unitary Authorities:</i>
North Wales	Wrexham, Flintshire, Denbighshire, Conwy, Anglesey, Gwynedd.
<i>Mid West Wales</i>	Powys, Ceredigion, Carmarthenshire, Pembrokeshire.
<i>West South Wales</i>	Swansea, Neath & Port Talbot, Bridgend.
<i>Cardiff & South East Wales</i>	Cardiff, Vale of Glamorgan, Torfaen, Monmouthshire, Newport.
<i>Valleys</i>	Caerphilly, Merthyr, Blaenau Gwent, Rhondda Cynon Taf.

The Questions

Q1. Do you currently have any of the following financial products or services either in your own name or jointly?

Multiple response - SHOW CARD

- a mortgage
- a personal pension (including company/works pension but excluding state pension)
- a personal loan
- a credit card/store card
- home insurance (including contents)
- payment protection insurance (eg. to cover repayments on loans if unable to work/made redundant)
- a hire purchase or credit agreement (eg. for a car; large electrical item; furniture)
- a current or basic bank account
- an active savings account (i.e. where you deposit money at least once a month)

Q2. In general, how good would you say you are at managing your money?

SHOW CARD

Very good

Good

Poor

Very poor

Don't know (**hidden**)

Q3. Using this card please tell me how much you agree or disagree with each of the following statements about money matters?

SHOW CARD

Please give me a response between 1 to 4 where 1 = agree strongly; 2 = agree; 3 = disagree; 4 = disagree strongly (with hidden Don't know)

- I feel confident when making decisions about purchasing financial products (such as mortgages, loans, insurance, pension)
- I like to shop around for the best deal before committing myself to a financial product
- I regularly (that is, at least once a year) change my insurance provider (e.g. car, travel) or credit card to get the best deal
- I feel scared/confused when dealing with banks, building societies and other financial firms

- Sometimes I commit myself to a financial product without understanding all the terms and conditions, such as interest rates, repayments and overall cost
- It is important to plan for your financial future

Q4. What do you think APR stands for on loan and credit agreements?
Do not prompt – one answer only

Annual Percentage Rate

The annual cost of taking out a loan or credit agreement

Something to do with interest rates/charges

Other answer (specify)

Don't know

Q5. Where did you personally learn how to manage your money and personal finances?
Do not prompt. First answer only.

- From parents/other family member/guardian
- From friends
- Taught at school
- Free money advice agency (such as your local Citizens Advice Bureau; credit union; community group)
- Other source (specify)
- No-one/self-taught
- I don't know how to manage my money

Q6. How much do you agree or disagree that learning about personal finances at school would have helped you feel more confident about managing your finances as an adult?
SHOW CARD

Agree strongly

Agree

Disagree

Disagree strongly

Don't know (**hidden**)

Q7. Have you or would you ever consider seeking independent financial advice before committing to each of the following?

Read out - Rotate start point

Yes No DK

- a mortgage
- a personal pension (including company/works pension but excluding state pension)
- savings/investments
- home insurance
- life insurance

Q8. Where would you **normally** go for advice on these types of services?

Do not prompt. Multiple response

- A bank
- A building society
- Other financial firm
- An independent financial adviser
- Accountant
- A free advice giving agency (such as your local Citizens Advice Bureau; credit union; community group)
- Family/friends
- Internet
- Media (ie. newspapers; radio; TV)
- Other (specify)
- Wouldn't seek advice
- Don't know

Q9. Where would you **prefer** to go for advice on these types of services?

Do not prompt. Multiple response.

- A bank
- A building society
- Other financial firm
- An independent financial adviser
- Accountant
- A free advice giving agency (such as your local Citizens Advice Bureau; credit union; community group)
- Family/friends
- Internet
- Media (ie. newspapers; radio; TV)
- Other (specify)
- Wouldn't seek advice
- Don't know

Q10. If you ever found yourself in financial difficulty where would you go for advice? **Do not prompt. Multiple response.**

- A bank; building society, other financial firm
- An independent financial advisor
- Accountant
- A free advice giving agency (such as your local Citizens Advice Bureau; credit union; community group)
- National telephone helpline (eg. National Debtline; Consumer Credit Counselling Service)
- Family/friends
- Internet
- Other (specify)
- Wouldn't seek advice
- Don't know