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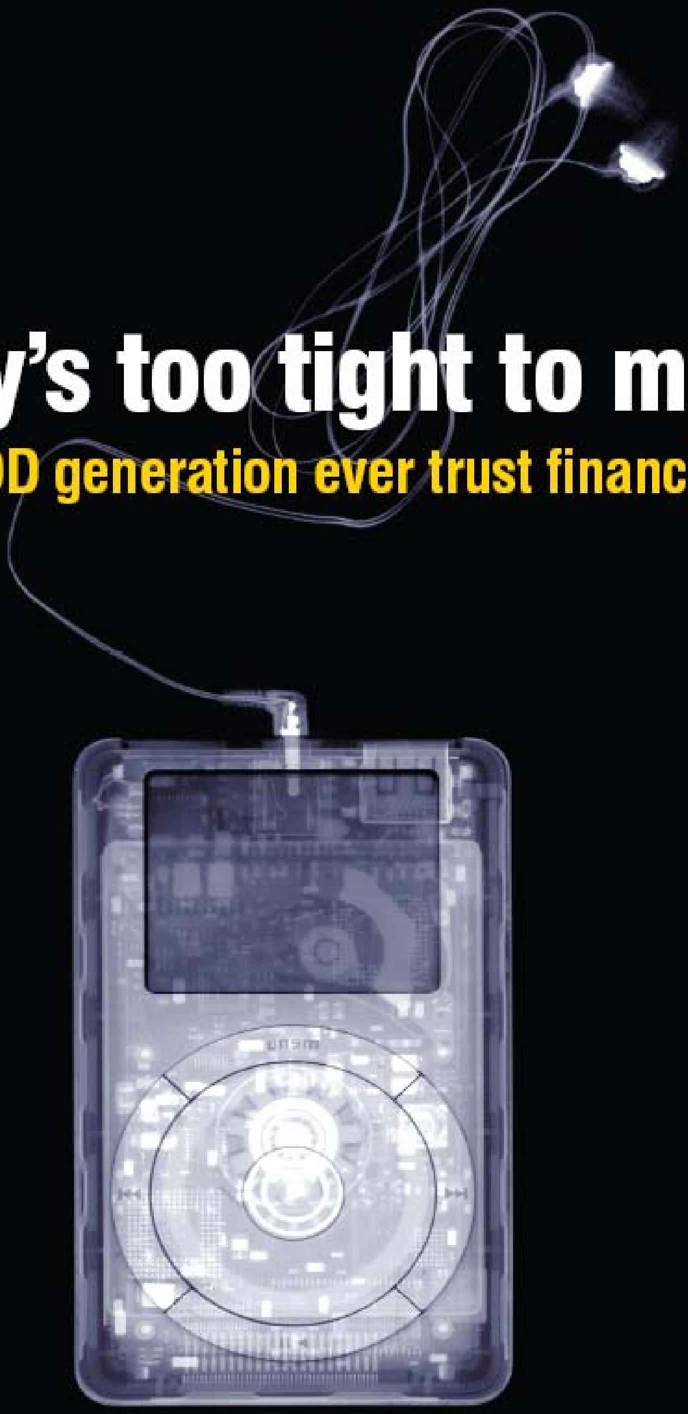
REFORM

Money's too tight to mention:

will the IPOD generation ever trust financial services?



Summary

A report by Reform and the Chartered Insurance Institute

CII Group | PFS CII

Money’s too tight to mention: Will the IPOD generation ever trust financial services?

The CII in association with the think tank *Reform* have conducted a major project analysing the financial habits of adults aged 18-34, a group coined by *Reform* in a previous report as “Generation IPOD” (Insecure, Pressurised, Over-taxed and Debt-ridden). Work included focus group and survey research by Populus on that group’s attitudes towards debt, savings, financial services and the future. The survey compares IPODs with other adults over 35.

Populus carried out qualitative and quantitative research on behalf of *Reform* and CII. *Qualitative*: Two focus groups were held in London on the 16 July 2008. Participants were recruited from across social grades and genders and reflected a variety of life stages of those aged between 18 and 34. *Quantitative:* Populus interviewed 1001 18-34 year olds by telephone on 8-15 September 2008 and then interviewed a random sample of 1015 adults aged 18+ online on 26-29 September. Both surveys were conducted across Britain and the results were weighted to be representative of all British adults.

The report provides analysis and intelligence around the current situation in which IPODs find themselves. It looks at their attitudes towards personal finance, and suggests how best they can be engaged in future in order to avoid the potential for problems for them and society as a whole as they grow older.

IPODs and their money

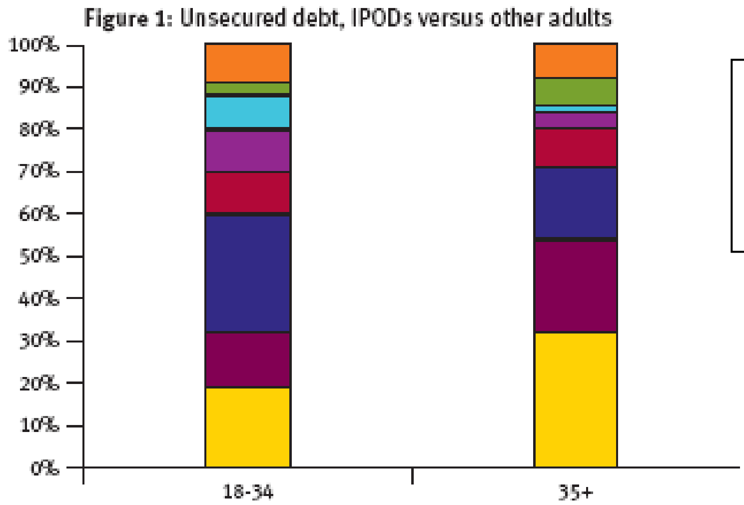
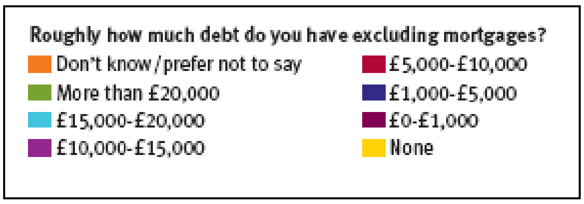


Figure 1



The findings show that that IPODs are struggling with the double problem of high levels of debt and low levels of savings:

- IPODs seem to have been programmed to accept debt as a normal feature of adulthood. Contributing factors include growing up in a prolonged and relatively benign economic period, the concept of student debt, and the “have it now” mentality; allied with low interest rates and easy credit. Over half of IPODs said they had debts of up to £10,000, compared to one in ten of other adults. The proportion of IPODs with no debt (20%) is the same as the proportion of that group with debts of over £10,000;

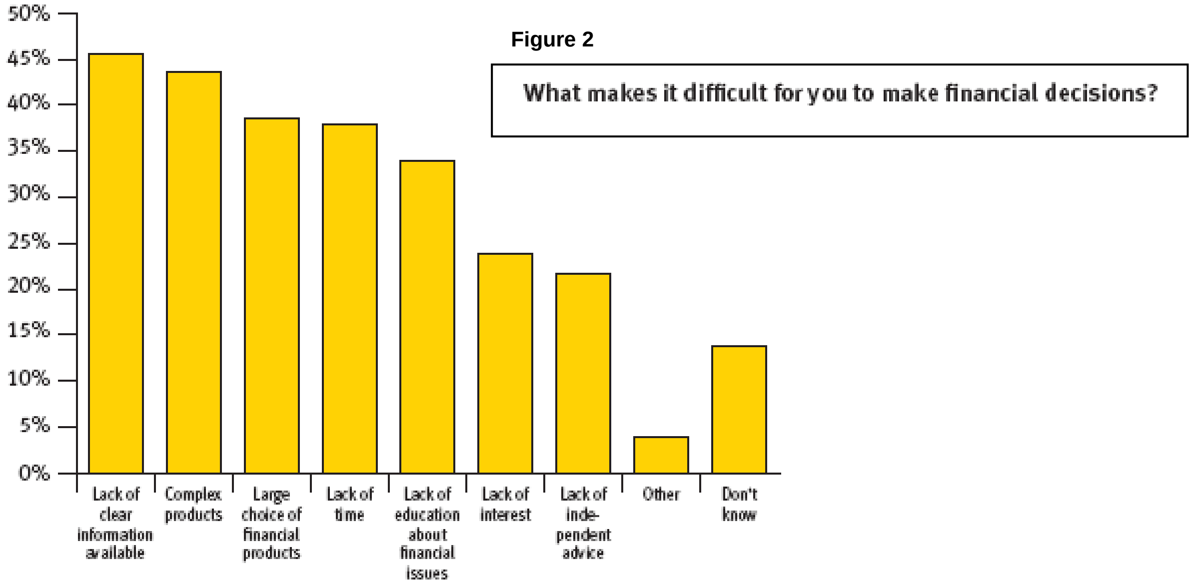
- On the savings side, nearly a third (29%) of IPODs have no savings (compared to 7% of adults over the age of 35). 60% have either no savings or less than £1000;

- IPODs are concerned about the situation they find themselves in. 63% said that they want to become debt free as soon as possible, and 53% feel that they are not saving enough. However, paradoxically, they are not taking the appropriate steps to tackle the problem;

- IPODs are also aware that the welfare rewards of previous generations will probably not be on offer to them. 58% feel that they will receive a less generous pension entitlement than their parents. They also face higher taxes to service a rising national debt. Despite this understanding, IPODs need to better prepare themselves for these increased burdens they will face in the future.

Taking responsibility & making decisions

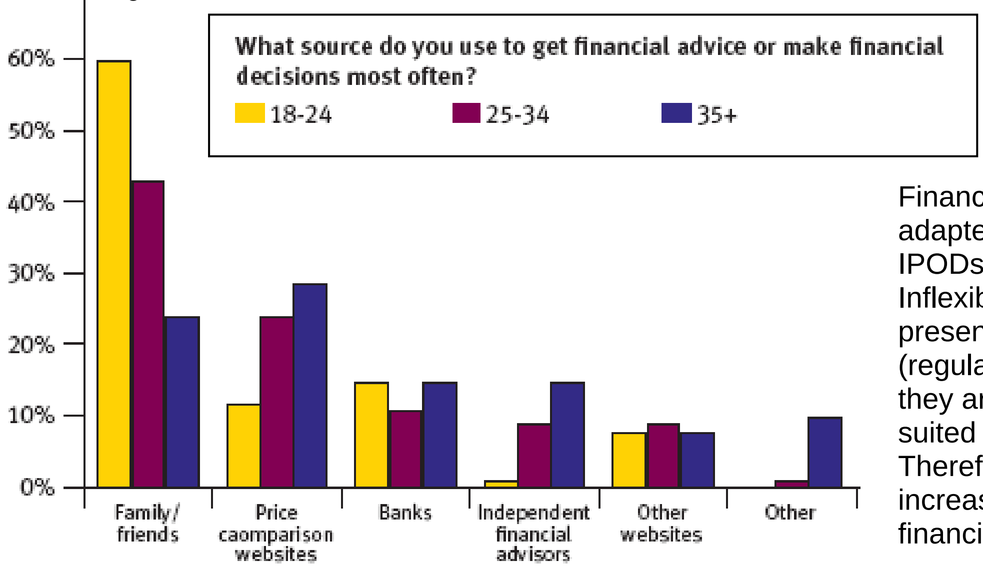
Figure 2



- IPODs have a strong sense of personal responsibility when managing their money. 70% feel that they should take most, if not all of the responsibility. 39% of IPODs produce a household budget at least once a month (10% more than over 35s) and 73% check their bank balance at least once a week;
- IPODs do not lag behind other adults in accessing the most basic products such as savings accounts;
- However despite this engagement and sense of responsibility IPODs lack knowledge and confidence when it comes to dealing with financial matters, and are behind other adults in accessing more complex products such as protection insurance. A third say they do not understand financial products enough and only half feel confident in making financial decisions;
- A lack of clear information is the most common obstacle cited by IPODs as impeding them in making financial decisions. All this points to the need for an information revolution within retail financial services.

The financial establishment: patronising the young

Figure 3



Financial services have not adapted to the way in which IPODs deal with their money. Inflexible products are often presented in complex (regulated) ways, and the way they are distributed is better suited to older generations. Therefore IPODs are becoming increasingly isolated from financial services. As a result:

- When seeking advice, IPODs instinctively turn to friends and family and are much more likely to do so than other adults. On average, less than 8% of IPODs would consider using an IFA;
- A third of IPODs view IFAs as being out of touch with young. This view is not shared by the over-35s. Only 10-12% of IPODs view IFAs as good value for money;
- The growing regulatory burden since the 1980s has pushed up the cost of providing financial advice exponentially, and has priced the IPOD generation out of the market.

Recommendations

The way forward lies in an advance on the demand side – through greater capability on the part of young people. Industry must respond, and government can help it to do so. In an ideal scenario:

IPODs

- See financial capability as a core life skill;
- Rate financial advisers and products via social networking, in order to ease the costs of regulation;
- Understand the need to invest in themselves throughout life; and
- Demand innovative solutions from the financial services industry.

Industry

- Considers and implements measures to reduce the costs of advice;
- Considers and introduces improved delivery channels and options for a changed world;
- Develops more flexible products in response to IPODs' flexible lifestyles;
- Improves the quality and professionalism of those selling and/or advising on financial products;
- Ensures better availability of easy to understand information;
- Introduces a range of measures and systems including pricing, remuneration and general principles of business to improve public trust in advisers;
- Actively supports and promotes the Government's efforts to enhance financial capability; and
- Enhances training provision of staff at all levels.

Government

- Allows increased innovation in financial services industry;
- Adjusts regulation to reduce cost of advice, focusing more on firm supervision and enforcement rather than prescriptive conduct of business rules;
- Enhances public financial capability within the education system, through the workforce, and through a national money guidance provision; and
- Supports and promotes professionalism across the industry.

A more financially capable society would be a stronger society. These recommendations offer a faster economic recovery from current difficulties. They use new technology to bridge the gap between IPODs and industry, and see a new level of financial capability support a new era of innovation and prosperity.

For a copy of the full research paper please visit our website: http://www.cii.co.uk/research

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Reform

Reform is an independent, non-party think tank whose mission is to set out a better way to deliver public services and economic prosperity. It believes that by reforming the public sector, increasing investment and extending choice, high quality services can be made available for everyone.

The Chartered Insurance Institute

The Chartered Insurance Institute (CII) is the world's leading professional organisation for insurance and financial services. It maintains the professional, ethical and technical standards of the industry. It is dedicated to promoting higher standards of competence and integrity through the provision of relevant qualifications for employees at all levels and across all sectors of the industry.

Success in CII qualifications is universally recognised as a sign of commitment and professionalism.

Individually, the CII's members commit to continuous professional development, through learning and examination, to maintain their professional standing. Its 93,000 members in 150 countries make up the largest professional body in the financial world. We all rely on professionals to maintain accurate and relevant knowledge and to give appropriate and unprejudiced advice. The CII ensures that we can trust in the competence and conduct of insurance and financial services professionals the world over.

The Personal Finance Society

The Personal Finance Society (PFS) is part of the CII Group and is the leading professional body for financial advisers and those in related roles. With well over 23,700 members, it promotes the highest standards of professionalism in the financial services profession, and sets the standards for technical knowledge, customer service and ethical practice across the entire financial advice community.