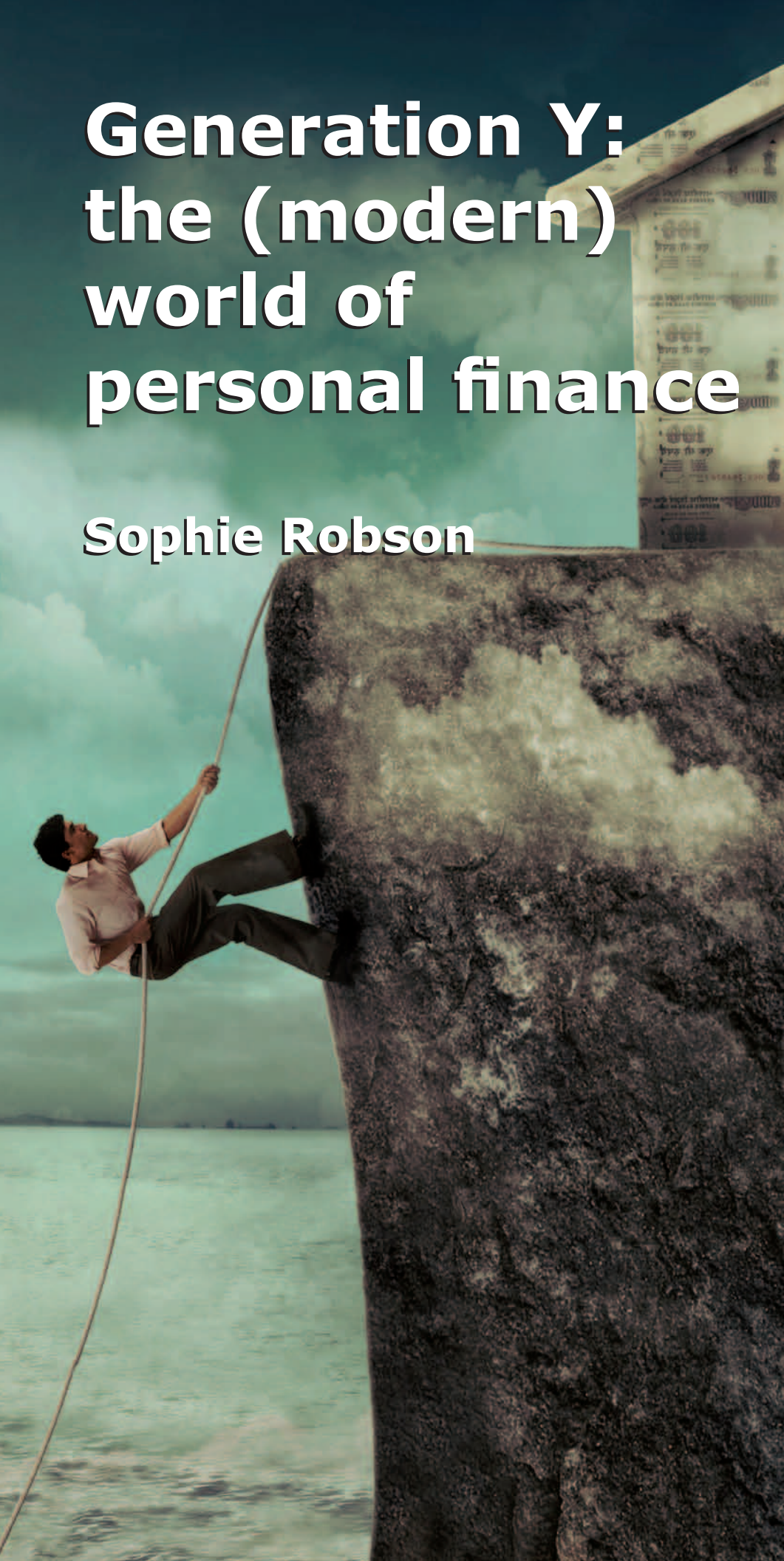


Generation Y: the (modern) world of personal finance

Sophie Robson



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The contributors

Sophie Robson I'm 25 and I graduated from Newcastle University with a BA in English Literature. I now work for the CSFI – and I'm the author of this report.	6
David Stansbury I'm a 23-year-old civil servant from Surrey. I've got a BA in languages from a top UK university and I'm now studying part-time for a Master's in economics.	11
Adam Savinson I'm a 19-year-old student from Manchester studying Economics and Political Science at the University of Birmingham. I'm dedicated to getting the right work experience: I've been to New York and, this summer, I'll be interning at the Institute of Economic Affairs in Westminster.	13
Daniel Watkins I work at Alnwick Castle in Northumberland, which has kept me in the area in which I went to university: I graduated from Newcastle with a BA in English Literature and an MA in Creative Writing. I'm 24.	19
Taj Mudhar I graduated from the University of the West of England and I now work in London for World Fuel Services.	19
Cecilia Makinde I am 25 and studied Law at university. I am now a communications executive working for a global insurance company as part of a graduate scheme in general management. Before that, I worked as an adjudicator settling financial disputes.	24
Niamh O'Kane I'm originally from Northern Ireland, but I'm now based in London as a trainee solicitor working for Herbert Smith.	25
David Pearce I'm now 26 and graduated with a 2:2 in Sociology from Nottingham University. I went straight into recruitment after graduating and have been in my current company for 4+ years. I do contract IT recruitment into investment banks. I live in London (renting) with a flatmate I met in recruitment.	26
Ed Kaznowski I went to school in Kingston, and then on to do a degree in Economics at Manchester. Now I work in marketing for Nutmeg, a start-up online investment manager.	32
Megan Rex I've got a degree in Creative Writing with French and Film from the University of Exeter, though when I graduated I moved into a very different sector: I now do PR, specialising in the financial and B2B sectors. That has meant that I quickly gained a lot of knowledge about financial topics, and I'm particularly interested in how young people deal with and interact with finance.	33
Keyur Patel I graduated from UCL in 2009 with a BSc in Economics. I've been a Marjorie Deane fellow at the <i>Financial Times</i> , as well as having written for <i>Financial World</i> , and I've worked at the Centre for the Study of Financial Innovation.	37
Serena Vecchiato I'm 25 and I'm originally from Italy, where I did my undergraduate studies at the Ca'Foscari University of Venice. I came to the UK to do an MScs in Risk Management at the ICMA Centre at the University of Reading, and I now work as a graduate trainee at the ICMA.	38
Eva Galigali A few things about me: I have a Bachelor's degree in Law and I had worked for four years as a lawyer in Athens before I came to London to do my Master's in Banking and Finance Law at QMUL.	41
Calum Fuller I've just got my first job as a reporter for <i>Accountancy Age</i> magazine, after graduating in Journalism from the University of Lincoln where I was deputy sports editor of the student newspaper, <i>The Linc</i> . I've been published by the <i>Leicester Mercury</i> , done some broadcasting for <i>Lincs FM</i> and <i>BBC Lincolnshire</i> , and been a sub-editor at <i>The Engineer</i> magazine.	43
Ella Berny I'm a graduate; I now work as an intern at the charity CreditAction, and I hope to start on a Master's degree this September.	47
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Acknowledgments

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Barbara Benson, Kate Bevan, Justin Brummer, Alex Bustamante, Andrew Douglas, Arthur Edwards, Antony Elliott, Calum Fuller, Helen Gentry, Jennifer Gilbert, Alex Harman, Ian Harris, Malcolm Hayday, Mark Howland, Jeannette Lichner, Rod McKee, Quentin Pain, Sandie Petrie, Mark Robson, Stephanie Rochford, Gavin Shreeve, Steve Stillwell, Angie Teasdale, David Thomson, Vicky Whiting, Harrow College, my colleagues at the CSFI and, last but not least, the essayists and survey respondents.

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Generation Y: the (modern) world of personal finance

Sophie Robson

Foreword

It isn't often that CSFI staff get to publish under their own names. But it was clear, after we held a panel discussion on young people's attitudes to finance, that this was different. After all, Jane Fuller, David Lascelles and myself are all wrinklies – way over the hill, as far as most of the concerns that modern yoof worries about are concerned. We (or rather I, since Jane and David arranged their affairs more prudently) may worry about pensions, and keeping the wolf from the door in our dotage. But we really know nothing about student debt, and even though I do have a PayPal account, I haven't got a clue how to use it myself. (David and Jane may also be more worldly-wise than me in that respect, but I for one am really pretty hopeless when it comes to technology.)

The point is that there is a chasm between the financial concerns (and the technological capabilities) of my generation and those of twenty-something year olds. Equally, I fear, there is a chasm between the knowledge base of different generations; we oldies may know the difference between a defined benefit pension and a money-purchase scheme. They may be a whole lot more comfortable ping-pong money about through the ether of the internet. But note the conditional: *may* is important. As I know to my own cost, some of us elderly folk are paralysed in the face of personal finance; equally, some (indeed, many) of the young folk who responded either to our survey or in the form of the brief essays that we commissioned were a lot less trusting of technology than I (for one) had expected. Bizarrely enough, some even seemed to crave a little human interaction – perhaps at a physical branch level – when it came to the complexities of personal finance. The CSFI's Chairman, Sir Brian Pearse, who started his professional life at a Martins Bank branch in Liverpool (and who has always deplored the disappearance of the branch), will be chuffed.

One other thing: security. I, for one, had casually assumed that young people – whose disregard for privacy over the internet is manifest – would be pretty relaxed when it came to security issues in the financial space. Not so; indeed, one of the more important findings of this report is just how reluctant young people are to embrace mobile banking even as it is being thrust at them by the banks themselves.

There are lots of good things in this report for the industry to chew on – and I am, therefore, delighted that Sophie Robson pushed us all to let her write it. She has worked immensely hard and has produced something that is I believe of genuine value. However, while the conclusions are all hers, she did have some help – not least from my colleague, Jane Fuller, and from Kate Bevan, a former colleague of Jane's at the *Financial Times*, who gave invaluable assistance with the editing. It was a big piece of work to which many contributed, but by far the biggest burden was that carried by Sophie.

Andrew Hilton
Director, CSFI

About this paper

Background

A CSFI round table...

In September 2011, the CSFI organised a round-table discussion, based on a topic that was fairly new to us: “*Young People and financial services: do they care (and how can we get them to care more)?*” At this, 17 people between the ages of 18 and 25 discussed their views (and experiences) of the financial services sector in front of an audience of around 70 senior professionals, academics and journalists. The panel made the most of the opportunity. They were very forthcoming about bad – and good – experiences, and frank about the limits to their knowledge of the sector.

Some of the points they made were rather surprising: for example, on balance, the panel seemed to prefer a physical bank branch to using mobile banking, seeing the latter as excessively risky. They were less likely than we had expected to change to another provider to take advantage of gifts or other inducements. They also had a healthy aversion to debt and a belief that savings are “a good thing”, and they were far more influenced by their parents in financial matters than many in the audience had expected.

The essays

Plus essays...

As a result of the round-table discussion, the CSFI decided to expand on the themes raised through a series of essays written by some of the participants and others in the same age group. These contributors were asked to write down their own views – without doing any additional research – on a number of topics including pensions, technology, financial education, debt and savings. The aim was to put together a sampler of what 18 to 25-year-olds feel about financial services and how comfortable they are with managing their own finances.

This kind of snapshot provides important data for the financial services industry: after all, this is the age at which providers start to build potentially life-long relationships with customers. Both the UK government and the industry are recognising that financial literacy is low and that young people need better understanding and more information to help them make appropriate and important choices.

... and a survey

Survey

In addition to commissioning the essays, the CSFI circulated a detailed on-line questionnaire to a wider group of people in the same age range. The results, which are discussed in this report, are based on 440 responses. The survey consisted of nine sections:

- Preliminary questions
- Education
- Banking
- Choosing a bank
- Debt
- Savings and investment
- Pensions
- Payments
- Financial knowledge

The questions were intended to give an insight into how members of this age group felt about a broad array of financial services and products. They were designed to cover as many facets of financial services as possible, although there was some thematic overlap between questions.

The respondents

About 19% of the respondents to the on-line survey were 20 or under, and 81% were between 21 and 25. Just over half (51%) were female and 93% were resident in the UK. About two thirds had been at a state secondary school and 83% had completed A-levels. 82% had completed, or were studying for, an undergraduate degree and nearly one fifth had a postgraduate degree or diploma. Responses came from around the UK and were collected from schools and sixth forms, further education colleges, universities, those in their first jobs, youth organisations and those from the CSFI's wider network.

The views of the young people are entirely their own, in both the survey and essays, and the CSFI's analysis aims to reflect (rather than over-interpret) the findings.

We hope this report will give those involved in the financial services sector some insight into how young people feel about the products and services on offer, and help to pinpoint where young adults see a need for innovation, improvement and guidance.

Key findings

Banking

- The majority of young people bank online
- Nearly all occasionally visit their bank branch
- Nearly three-quarters have never used mobile banking
- Many have concerns over the security of banking online
- Women have fewer savings than men and are less likely to diversify
- More than half chose their first account because their parents banked there
- Students were more likely to choose a bank based on introductory offers
- Men were more enticed by introductory offers than women
- Women and the under 20s set more store by a bank's reputation than men
- Graduates and over 25s were more likely to have accounts with more than one bank
- Less than a third had ever closed their account and switched to another bank/building society. Reasons cited for closing accounts included poor customer service, better rates elsewhere and 'streamlining' their finances

Debt

- Most have debt, especially student debt and overdrafts
- In general, respondents pay card/overdraft debt off every month
- Hardly any have ever borrowed from a high street moneylender/payday lender or pawnbroker
- Men have slightly more credit card debt than women
- Graduates are nearly twice as likely as non-graduates to have more than £500 on their credit cards
- Nearly half of all respondents still receive more than £200 per month from their parents

Savings and investments

- Three-quarters of all respondents have at least £500 in savings
- Nearly two-thirds have over £1,000 in savings
- Women have fewer savings than men. This includes bonds
- Men are more likely to diversify their investments than women
- Two-thirds of the respondents keep their savings in a savings account
- Women are more likely to go for traditional savings vehicles such as a current account or savings account
- Just over a quarter hold shares
- The biggest contrast in those who hold shares is between graduates and non-graduates (32.1% and 4.1% respectively)
- Just 26.1% of those who own shares have bought them by themselves
- Four in 10 feel they will be able to buy their own place while they are still in their 20s – just one in ten think they will be 40 by the time they will be able to afford to

Pensions

- 76% of respondents rate pensions as being important
- More men are contributing to a pension than women
- Men are more likely to be paying into a personal pension, whereas 90% of women with a pension were paying into a company pension
- 45% of all those who contribute to a pension have a defined-contribution (or money-purchase) pension
- Just 10% are in a defined-benefit scheme
- More than four in 10 of those with a pension do not know what type of pension they have
- Nearly 60% of all respondents expect to be able to pay into a pension in their 20s.
- All but 7% think they will be able to contribute to a pension fund by the time they are in their 30s.

Payments

- 60% of respondents had not written a cheque in the past year
- Just one of the respondents under 20 had written more than 10 cheques in the past year
- Cheques are seen as old-fashioned
- Two-thirds have a PayPal account, but just one in 10 had other similar online accounts
- Over 85% have direct debits set up

Financial knowledge

- Almost two-thirds of respondents have not had any formal financial education. This figure was roughly the same for state/private, graduate/non-graduate
- Despite this, nearly two thirds feel well informed enough to make the kinds of decision about personal finance that are required of them
- 72.5% of males and 55% of females believe they know enough about personal finance to make informed decisions
- Of the respondents, 57% are “interested” in personal finance, just over a quarter are “intimidated” and about one in six think it is boring
- Several of the essayists expressed scepticism about how financial education would be taught in reality

1. Introduction

Why did I write this report?

Before we get into the meat of the report, let me tell you why I was so keen to get involved – both with the original round-table and with the subsequent on-line survey.

I have worked at the CSFI for three years – my first/second job after University. I have been responsible (in whole or in part) for putting together several hundred round-table discussions on topics from OTC derivatives to microfinance. But, for the most part, I never felt that these fairly abstract topics touched me personally. Personal finance, however, does touch me – and most people of my generation. It *touches* us – and (at least in my case) it *scares* us.

I don't have a pension fund at the moment, but it is something that will become increasingly important to me in the near future. At this stage, I prefer to spend any excess I have on non-essential things, such as entertainment, going out and the odd holiday. I hope to have started a pension fund by the age of about 30, but I doubt that I would ever contribute a significant proportion of my income to it.

When I was about 18, I opened an ISA, and a lower-interest savings account, although I never put anything into these. Given the choice between putting money into a pension fund or into a savings account, I would definitely opt for the savings account – I find it very difficult to think ahead to 35-plus years' time when I might want to retire. The next significant steps in my life will be marriage and children, and even though they seem very far off now, they are much more tangible than retirement.

I think people have a better idea of the costs involved in these than those of retirement. For example, we're always being told that it costs X to bring up a child to the age of 18, or that the average wedding costs Y; but we hear next to nothing about how much tax you might have to pay once you take out an annuity at retirement, or how much money you should expect to have to live on per year as a retired person. I think it's partly the uncertainty surrounding the retirement issue that makes me reluctant to put my spare money into a pension, although in an ideal world, I would like to save about 10% of what I earned.

My bank branch is just a few minutes' walk away from my office, so I visit it quite regularly: mainly to transfer money or pay in cheques, or for trickier requests that I can't do online. This is more through habit than through necessity, but I do find it reassuring to know that I can give orders to an actual person, and clarify anything there and then to prevent any misunderstandings between man and machine.

I also have a PayPal account which I use for shopping online. I only really use my online banking facility to keep an eye on my financial situation: for example, I might double-check that my rent has been paid on time, or that my phone bill isn't significantly higher than normal. I would never feel fully comfortable dealing exclusively with technology where my finances are concerned – I wouldn't be happy using mobile technology for payments, for instance.

For me, technology should be an enabler of, but not a replacement for, the systems we have now, although part of me thinks that financial services companies could take enabling a step further. For example, now that it is second nature for most of us to pay for goods with a chip and pin card (instead of having to dig around for the correct change), why shouldn't card companies also give us the option to divert money to other accounts while making a card payment? I mentioned earlier that I would prefer to spend any money I have rather than save, but if I had the option of saving very small amounts: say, £1.50 on a £10 purchase (similar to a restaurant tip), I would save more. The same principle could be used to clear debt.

I have been paying off my student debt (which was originally about £15,000) for about three years – though I hardly notice it, as it is taken out of my gross salary each month. I also have a free overdraft. I do use a credit card to pay for larger purchases, such as a laptop and a holiday, but I am quite disciplined about paying this off each month, so don't incur much interest.

Compared to my friends, I think I fall about in the middle: I probably have more student debt, as I got less parental financial support at university, but other people I know had a couple of maxed-out credit cards by the end of their second or third years.

Was this because of lack of financial knowledge. Yes and no. Among my friends, no one I know got a credit card because they thought it was free credit, or even cheap credit, and everyone was aware that they could be reining their spending in a little. However, I do think they were a bit shocked by how fast interest accumulated.

Conversely, people who had less financial knowledge at that stage, myself included, steered clear of credit cards as they weren't comfortable using them. So my lack of financial knowledge probably made me less likely to gamble with my money, and made me stick instead to tried-and-tested ways of making my money go a bit further.

I have always felt that financial services companies struggle to engage with young people about what their products are and how they work. I have had a few consultations with financial advisers, and I've also felt that they are either going much too fast, or explaining things to me that I already understand very well – for example, how much you can invest in an ISA tax-free each year.

There definitely wasn't enough financial education at my school, unless you chose something like economics or business studies, and I found it patchy at university as well, with just a few pamphlets bundled in with the rest of a welcome pack. Most of my knowledge of the financial services industry has come from my parents and I have tended to take my lead from them – for example, I opened accounts at the same branch as my mother, but I would have really benefited from more practical, hands-on advice when I was younger.

Whatever, I am now a lot better informed about how my age group feels about financial services – and where I stand – than I was before I started this little adventure.

Not enough financial education

2. Banking

Perceptions are not always right when it comes to banking

The original round-table sought to find out panellists' attitudes to their banks, which spend both money and effort on wooing young people on the assumption that once chosen, few people bother to change their bank. Hard evidence for this assertion is not easy to find. However, according to the Norwich and Peterborough Building Society, 35% of Britons have never switched their bank.¹

Our working assumption had been that the answer would be that younger clients would be only too happy to abandon the physical bank branch. Younger consumers today are (we are told) completely comfortable with e-commerce – with PayPal, Amazon, eBay, Facebook, whatever. They buy and sell routinely over the internet; they live a large part of their lives online. Why should banking be different?

That certainly seems to be what the big banks are thinking: the Campaign for Community Banking Services recently forecast that the number of bank branches in Britain could fall from 9,550 to 8,000 between now and 2018 – and many villages and towns are already without a retail banking presence in the high street.² There are lots of reasons for this, including cost pressures and the drift of retail towards out-of-town shopping centres; but the trend seems inescapable.

And, since smartphones are now (more or less) ubiquitous, wouldn't it make sense for 21st-century banking to be just one more service that can be provided via mobile telephony?

Well, yes – and no. As both the survey results and our panellists' essays demonstrate, the views are a lot less clear-cut than many might assume. Young people are in some cases surprisingly conservative.

The survey findings

We asked four questions that directly addressed our respondents' relationship with their banks:

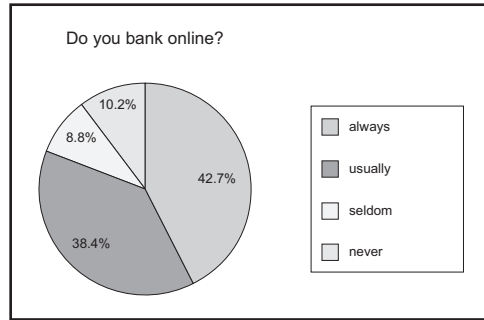
How do you feel about your bank?

- Do you bank online?
- Have you ever used mobile banking?
- Do you ever worry about security issues with online/mobile banking?
- How often do you visit a bank branch?

1. Norwich and Peterborough Building Society, "Hassle and Apathy Prevents Current Account Switching" September 2011

2. Campaign for Community Banking Services, Derek French forecast in Daily Telegraph, 21 Feb 2012 <http://www.telegraph.co.uk/news/uknews/9093480/Rural-bank-closures-are-damaging-towns-MP-says.html>

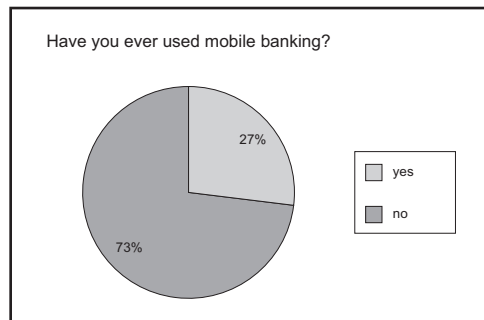
What about online and mobile banking?



Do you bank online? Only 10% of survey respondents said they “never” banked online, though a further 9% said they “seldom” banked online. Fully 81% said they “always” or “usually” banked online – which certainly supports the thesis that the branch is dead or dying.

absolutely critical. I would be lost without it.” (Niamh O’Kane) However, several essay writers were more equivocal. For example:

- “When paying a bill, I will always use my internet bank for any transaction, with confidence. However, I still believe in the importance of the local branch.” (Adam Savinson)
- “I’ve started using online banking. I like it for checking statements, paying my credit card bill and occasionally throwing chunks of money at the Student Loans Co ... I would never do it over a mobile phone, though.” (Daniel Watkins)



Have you ever used mobile banking? Our working assumption was that well-educated, tech-literate young people would be overwhelmingly receptive to mobile banking (defined as performing basic banking functions over a mobile phone). Not so. Almost three-quarters of those who responded to the survey had never even tried mobile banking.

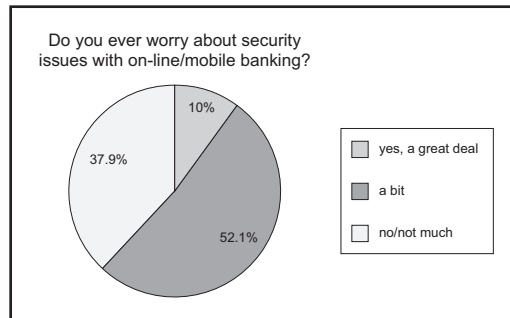
That supports recent research by Datamonitor, which found that only 16% of consumers felt mobile phone banking was an important technology, even though nearly one in three adults – and more than 50% of 18-29 year olds – owns a smartphone.³

There may be some technical issues here. Many banking apps, for example, seem to be on the iOS (Apple) platform only, with fewer being available for other mobile operating systems such as Android, BlackBerry and Windows Phone 7. And at least one writer admitted “I don’t trust my fingers to always hit the right key.” (David Stansbury)

But, as shown below, the big issue seems to be security – which is a bit of a surprise since, in other areas of e-commerce, younger consumers have been more relaxed about security than conventional wisdom had expected.

3. Datamonitor, Feb 10, 2011, “Mobile Banking – not important to UK customers – yet”.

... and security issues?



Do you ever worry about security issues with online / mobile banking? It seems we might have phrased this question badly, as the written responses suggest that people believe there's a big difference between accessing financial services via a computer and via a mobile device. As a result, the survey response might seem to indicate a fairly low level of general

concern. In fact, one of the key themes to emerge from the essayists' individual responses is a widespread concern with mobile phone security. The following are fairly representative:

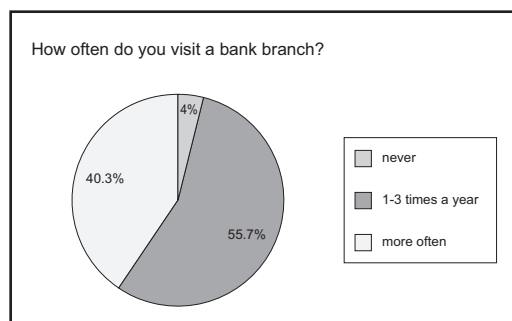
- "I don't think I would use a mobile phone for banking transactions ... because of the security issue. [There is] something about the mobility of them/how easily they are lost etc [that] would put me off." (Ella Berny)
- "I don't think [mobile banking] is something I'd do, and I am not sure it should be encouraged ... I don't trust my mobile provider's mobile internet to be secure ... I'd ... feel more comfortable if my ... bank had laid out very clearly their insurance/security procedures for online fraud." (David Stansbury)
- "I feel uneasy about the fact that all of my money and account details can be accessed from my phone." (Adam Savinson)

Respondents also expressed more general concerns about online banking.

- "I have the ongoing fear that someone will hack my account, and all I have will instantly disappear." (Eva Galigali)
- "Security is the one reservation I have about online banking ... I wouldn't log in at a wireless hotspot, for instance." (Keyur Patel)
- "I do not trust doing transactions over the internet ... I will only check my balance online, and that is it." (Taj Mudhar)

On the whole, though, security concerns seem to be more pervasive when it comes to using mobile phones. One essayist summed up his concerns in a way that resonated widely: "I would use mobile phones for all banking transactions – as long as there was a trusted representative of the bank I could call." (Ed Kaznowski) That, perhaps, opens up a role for human intervention – and for the branch.

Is there life in the branch?



How often do you visit a bank branch? The survey suggests that there's life in the old branch yet – just 4% said they “never” set foot in a physical bank.

Despite the appeal of online and mobile banking, there are still some things that are easier to do in a physical branch, or that (in

respondents' opinion) cannot be done elsewhere. Plus there are the occasions where advice from a real human being is needed. There is, however, a slight sense of guilt at the continued appeal of the branch:

- “I only visit my branch when I need to cash a cheque, and even that seems archaic.” (Keyur Patel)
- “[To] deposit money into my ISA or change accounts” (Ella Berny)
- “I simply don't understand the interest rates, APRs etc that banks offer.” (David Stansbury)
- “I would rather go to my local branch for explanations.” (Adam Savinson)

This was contrary to the expectations of some of the young people themselves: “I was surprised that the majority of the young people [at the original round-table] ... still see the need for a local bank branch.” (Megan Rex)

And what did the essayists think?

David Stansbury

“How financially literate am I? Not very. If I'm being honest, the phrase ‘financial services’ means very little to me. Unfortunately, until very recently, I had been one of the many who almost equated financial services and banking with something everyone had a right to, rather than being a producer/consumer relationship.

“There are lots of problems with that assumption. It makes me less aware of what many finance and banking terms mean, and what relationship I am entering into when I open a bank account. It makes me much less demanding of high performance from my bank. While very happy to switch mobile phone provider, it has taken me several years of dissatisfaction with my financial services provider to actually prod me into action to change.

“Part of the reason for that was inertia. But a hugely significant part was also feeling under-qualified to understand all the jargon and percentage points that are shoved in your face when trying to transfer to a different provider. I found over a few months of research that it was nigh on impossible to really compare different providers, as they all had different terms, conditions and perks. I couldn't ask anyone to help explain them to me, because whoever I asked would immediately back their own bank's products (obviously), rather than giving impartial advice.

“I’ve recently begun moving my current account banking from one high street name to a solely internet-based banking provider. My reasons for doing so were that this provider seemed to offer fairly self-explanatory perks to opening an account with them, including a high-return regular savers account. That said, I’m well aware that I may not have selected the best option for me, because trying to work out the sums is exhausting and, to be honest, beyond my ability: I simply don’t understand the interest rates, APRs etc that banks offer and in the end went for one that offered a lump sum for transferring.

“I’m not sure how I feel about a bank that does not allow me to see someone face-to-face for questions and large transactions. But when I think about it, I never really used my branch for anything more than paying in cheques, and to have arguments about failures to provide statements when requested, open new accounts on time etc. I do most of my banking online, like checking my balance and planning my monthly and weekly budgets.

“But I have never set up a direct debit or standing order online – that would be a bit of a leap of faith for me. Not because I don’t trust the security of online banking, but because I don’t trust my fingers to always hit the right keys, and could soon find myself transferring money to quite the wrong person or people.

“In terms of mobile banking, I don’t think it is something I’d do and I’m not sure it should be encouraged. Perhaps irrationally, while I trust my internet connection at home to be secure, I don’t trust my mobile provider’s mobile internet to be secure.

“I feel that problems with hitting wrong keys are only magnified on a phone, perhaps irrationally because I have no problem logging on to my internet banking on my phone to check my balance, though would never carry out any transactions on it. In the past, if I needed to make a transaction while out and about, I would have popped into a branch. Now that I don’t have a branch, I may find myself forced to use mobile banking, and if asked again in a few months, I might feel differently about it.

“I’d definitely feel more comfortable about it if I felt my previous or current bank had laid out very clearly their insurance and security procedures for online fraud. At the moment, I feel that if anything happened to my accounts as a result of online banking, I’d be hung out to dry by my bank.

“My final issue with mobile banking is that I use an Android phone. I feel unhappy that both my old and new provider only offer simple banking apps for iPhones. I understand that this might be for security reasons as iOS is apparently more secure and hacker-proof than other networks, but I feel angry that overpriced Apple products are being given a boost by banks that won’t widen their app provision.

“In terms of savings, I am very fortunate that my parents have planned savings for me from a very young age. While certainly no millionaire, I am lucky to have a bit of money to fall back on if I ever lost my job.

“I have recently been given responsibility for overseeing how I save and invest this small sum of money, and have moved it from a fixed rate e-bond to another provider who is offering a slightly lower rate of return of about half a percentage point but offering the chance of a lump sum win of cash. My amateur analysis told me that with my current level of savings, half a percentage point would only mean a loss of about £50, while I had a vague chance of winning more than £100 with my new provider. This might be unwise and gambling-esque. But, for some reason, the possibility of a lump sum which I can instantly relate to is always more attractive than seemingly vague percentage rates of return.

“As for debt, I have been scared off it. It probably doesn’t mean I use my money as effectively as I could, but I hate the feeling of owing. I have nearly £25,000 of student debt to pay off and that is quite enough for me. I am gradually lowering this by paying monthly contributions from my salary.”

Adam Savinson

“Despite reading economics, university has not had much impact on my knowledge of the financial services industry. Where appropriate to the course, the economics department has taught me how to calculate rates such as APR, but these lessons were all theory and little application.

“As a university student, I am often the target of banks that want to get hold of my precious student loan. I have no excuse about having little interaction with banks, as I was immediately offered many different opportunities to open a student account.

“However, embarrassingly, I have very little knowledge about how these accounts were different, and which one would benefit me the most. Throwing multiple percentages and statistics in my face hardly made this any easier, which meant that I eventually chose my bank account randomly.

“While overall I think that financial companies underestimate the knowledge of the youth, as far as debit and credit cards are concerned, I believe this is one exception. Financial companies know exactly how much the first-year undergraduate knows about debit and credit cards: nothing. Speaking to my peers, I immediately found out how they all chose which bank to use: it was the one that offered a free railcard worth £20.

“My student account was not in fact my first bank account, as I am lucky enough to have a savings account with a standing order from my grandparents to add to it once a month. On my 18th birthday, the control of this account switched from my grandfather, who had been investing it, to me.

“It does not sound preposterous to let an 18-year-old economics student choose how he wants to invest his savings, whether in bonds or an investment company. At first I did try and use this money responsibly – a portion of it is currently with Legal & General – but I had no idea what I was doing. My lack of knowledge of what to do with savings has led to the rest of my money rotting away in a standard savings account, earning just pennies in interest each year.

“Debt is a subject that is particularly familiar to the youth of today. I find this topic quite interesting because of the outrage at student fees going up and the likelihood of leaving university with mountains of debt. We are all aware that everything we spend will eventually have to be paid back.

“Although I personally do not do this, I know many students who also look at their overdraft in the same light as their student loan. They borrow money from their overdraft, and assume that they will pay it back when they leave university and are earning money.

“As we all have student accounts, with large free overdrafts, I don't think that your average student understands what an overdraft really is, and how expensive they can be. I recently discovered that I was the only person in a group of 10 intelligent students who knew that not only were our student loans linked to inflation, but also have interest added to the amount we have to pay back.

“While this may seem obvious – nobody is going to give out a loan that they will potentially lose money from – I had overlooked this. It was only upon researching the terms on the student finance website a few weeks ago that I realised this. While the information is clearly accessible to anybody who looks for it, I think that, in general, the youth group that I am part of lacks the knowledge of how expensive debt can be, and how important it is to reduce it.

“Finally on technology, you would think that a person of my age who uses his smartphone for everything would be particularly enthusiastic about the opportunity to make transactions on the go, but this does not seem to be the case. Despite the claims that it is secure, I still feel uneasy about the fact that all of my money and account details can be accessed from my phone. There are many opportunities to lose a phone, from leaving them in taxis to muggings, so the risk of having all of this information stored on my phone seems a bit high.

“Technology does have the potential to make banking simpler. I always feel confident using internet banking, but I still believe in the importance of the local branch. To those who understand what they are doing, internet banking offers everything that is needed. As a young adult, I know surprisingly little about financial services and would not usually have confidence to, for example, set up a new account online.

“I would rather go to my local branch for an explanation of how to set up a new account or to find out how to get the most out of my savings than trying to interact with customer relations assistants who might not understand what I want over e-mail.”

3. Debt

Debt is a serious concern

The conventional wisdom is that society's perception of debt has changed over time from being something that carried a stigma to an acceptable way to pay for consumer goods. One reason has been rising house prices, which meant that one could borrow against the value of property to release cash.

However, with falling house prices and increased uncertainty about jobs, the new consensus is that debt is less likely to be seen as an easy option and more as a millstone. Gone are the headlines about buy-to-let millionaires; in their place, today's young people read stories about the stress of debt repayments.

Personal debt in the UK stood at nearly £1.5 trillion at the end of November 2011, with average household debt (excluding mortgages) at £7,982. Bankruptcy cases have been running at 300 a day and a recent report by the Consumer Credit Counselling Service (CCCS) said that the average UK household was found to be paying almost £200 a month in interest payments on credit card and other debt.⁴

Our age group is mostly too young to have taken advantage of the boom in easy credit, and (excluding university debt) too young to have accumulated much debt of their own. Plus, tighter regulations have restricted their access to debt. Additionally, few at this age have mortgages (the average age in the UK for buying property is now 35), few have dependents and they tend not to make large purchases.

However, student debt is a real concern for younger people: the average graduate now leaves university with £25,000 of debt, and he or she faces making repayments for years to come. The rise in tuition fees has also worried many.

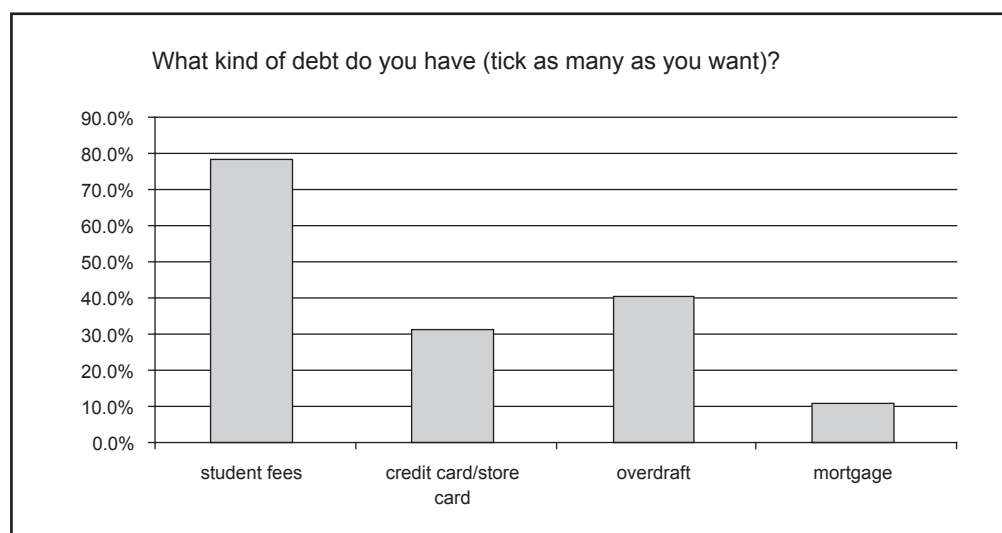
That said, it is clear from the responses that young people are capable of making nuanced, sophisticated judgments about debt. Although our respondents see debt as something to be avoided, they also distinguish between different types of debt – particularly student debt and other, higher interest debt – and some of them even navigate their way quite cleverly through this minefield. As one panellist said “all debt was not created equal”.

The survey findings

We asked five questions, which looked at the levels of debt young people were carrying, as well as whether they paid it off monthly or let it build up:

4. Consumer Debt and Money Report, Q4 2011, based on research carried out by cebr, Consumer Credit Counselling Service.

- What kind of debt do you have?
- Have you ever borrowed from a high-street money-lender, payday lender, pawnbroker etc?
- What kind of payment cards do you have?
- If you have credit cards/store cards, do you pay them off each month?
- If no, is the total running balance on your cards more or less than £500?



Type of debt ...

What kind of debt do you have? As might be expected, 79% of the respondents had student debt, including 92% of those now studying. A total of 77% of private school respondents had student debt; surprisingly, that was not significantly lower than the 79% for state-school educated respondents.

On top of this, 40% had an overdraft (43% in the over-20s cohort and 37% among those who were privately educated) and 31% had a credit card or storecard. Only 11% had a mortgage. Slightly fewer women than men had credit card or storecard debt (30% of women, compared with 31% of men), but there was no significant difference between the overdraft debt of women and men. Other types of debt included a career development loan, loans from families and a car loan.

The essayists' answers reflected a generally cautious attitude to debt. Some even seemed to have a healthy aversion to it:

- “As far as I’ve ever been concerned, debt is debt. It’s always bad.” (Calum Fuller)
- “I have a great attitude to debt, and don’t consider debt an option.” (Serena Vecchiato)

- “I have never been in debt. I’m terrified of the notion.” (Daniel Watkins)
- “In terms of debt, I have been scared off by it ... it probably doesn’t mean I use my money as effectively as I could, but I hate the feeling of owing.” (David Stansbury)

However, most respondents seemed less concerned about student debt. Indeed, some took a fairly robust line:

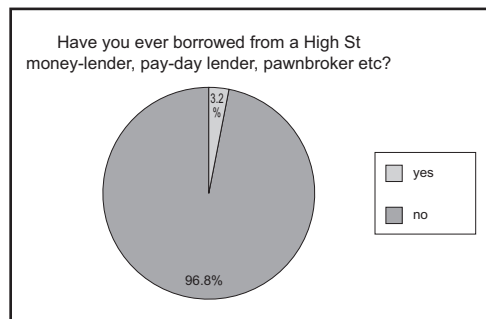
- “I tend not to think about my student debt very much, as it is quite a large amount and repayments are deducted from my salary automatically every month.” (Niamh O’Kane)
- “[It is] not necessarily a disaster that student debt is increasing. In fact, I am in favour of people internalising the costs of education when they receive the majority of the benefits.” (Anonymous)

That said, commentators and politicians are probably right to be concerned about student debt. In particular, some essayists admitted that they knew very little about how the system worked before they started university, particularly with regard to interest rates:

- “I found I was the only person, in a group of 10 intelligent students, who knew that our loans were not only linked to inflation, but also can have interest added to the amount we have to pay back.” (Adam Savinson)
- “I feel that the student loan company has a duty to keep students better informed – it might have been naive of me to think [the loan was interest-free] at the time I took a loan but I simply feel that there should have been greater clarity.” (Cecilia Makinde)

This surprised us, given the level of awareness about high-interest sources of debt as evidenced in the responses to the next question.

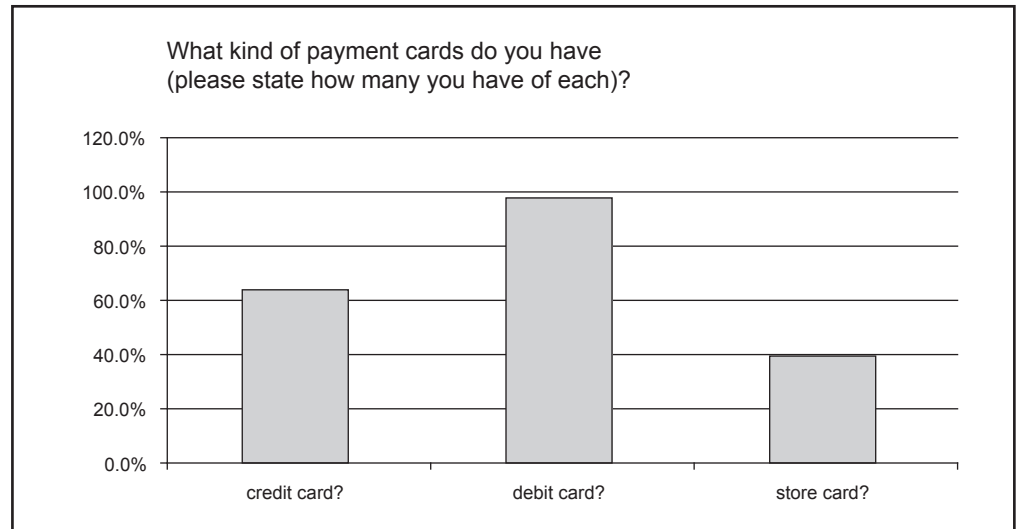
High-interest debt



Have you ever borrowed from a high street moneylender, payday lender, pawnbroker etc? Most demonstrated extreme reluctance to borrow from high-interest lenders, with only 3% answering yes. It seems that no socio-economic sub-set of respondents was significantly more likely to use one of these than any other.

This may support the view that younger people are reluctant to take on retail debt in general. However, they often turn to the Bank of Mum and Dad: 41% of respondents still received regular financial

support from their parents and of these 46% received more than £200 per month. Not surprisingly, none of these had ever borrowed from a high interest lender.

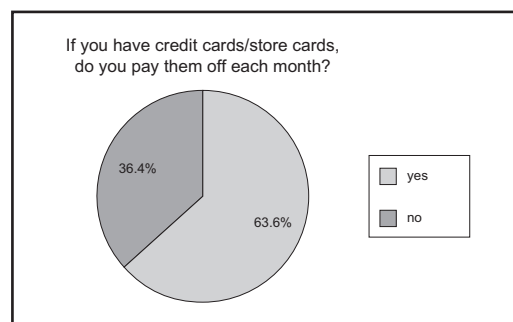


Cards...

What kind of payment cards do you have? Almost all our respondents – 98% – had at least one debit card; 64% had at least one credit card and 39% had at least one storecard. Several had more than one of each: about 30% had two credit cards, while about 25% had more than one storecard. A few of the respondents, though, had as many as five credit cards – and one respondent admitted she had seven storecards.

This was not necessarily because they were struggling with debt. Rather, several were aware that having credit cards that were paid off regularly could be good for their credit rating – though it is worth noting that one study found that young people feel that banks and other companies are too keen to coerce them into taking out credit cards and store cards.⁵

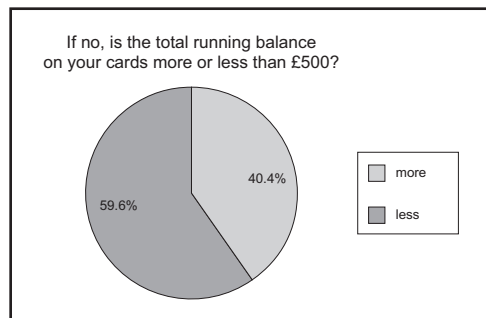
But it's how they use these cards that really matters.



If you have credit cards/ storecards, do you pay them off each month? Nearly 64% paid their credit cards or storecards off each month. This was exactly the same for males and females, and 67% of those over 20 also paid their balances off each month, compared with 37% of those under 20, although this could simply mean that under-20s used their cards less often.

5. Myvouchercode.com, May 2010.

Total debt...



Is the total running balance on your cards more or less than £500?

Of those who did not pay their cards off each month, 40% had an average indebtedness of more than £500. Men seemed to have slightly more credit card debt than women (42% to 39%). The result was the same regardless of age. Those who had not been to university were, however, less likely to have more than £500 on their credit

card – 24% compared with 47% of graduates.

So, for the most part, the young people in our sample are not running lots of card debt. This was also true of most of our essayists, who were generally keen to pay off any debts they had as soon as possible.

- “[I have some credit card debt but] now I have decided to look at the long term I will be aiming to pay this all off by June/July this year.” (David Pearce)
- “I ... go out of my way to make sure I use credit facilities when they help with my personal liquidity but always pay off outstanding debts before interest charges become an issue.” (Anonymous)
- “If I did get my hands on a lump sum of money I would try to pay [my card debt] off, as I would rather not be paying interest on it.” (Niamh O’Kane)

However, a few felt that clearing indebtedness shouldn’t always be a priority, particularly student debt:

- “I have been discouraged from [paying my student debt off]... having found out that the interest I receive on my savings outweighs the modest interest rate I am charged on my student loan, rendering paying it off pointless.” (Calum Fuller)

In other words, as long as the interest rates on repayments remain lower than the interest on a savings account, it may be more rational to save than to pay off the student debt.

For another, however, this was a symptom of a more dangerous problem – the “normalisation” of debt:

- “We enter adult life with the detrimental attitude that debt is the norm and doesn’t impact hugely on our daily existence.” (Ella Berny)

And what did the essayists think?

Daniel Watkins

"I know very little about financial services. I know they exist, but my knowledge beyond that becomes very sketchy.

"I have a pension fund, but I couldn't recall offhand the percentage of my weekly wage that goes towards it – I am paid weekly, not monthly, due to some quirk explained to me by the payroll department at work. I know that I pay X amount, and my employer pays a slightly larger Y amount, and it all goes ... somewhere. That, I don't know.

"I started paying towards a pension primarily because I understand it's something you're supposed to do at some point, and the earlier you start funding it (I was 23), the more you will presumably have when it comes to the time you'll actually need it. The mechanics of the operation beyond that are not something I know about.

"I have savings. There is one ISA I've had for a number of years, which sits there doing very little, and another ISA I set up earlier this year because I felt that I didn't need all my money to be in my current account. I don't really know what an ISA is. You put money in it, and if you put enough in it, it gains interest, and then when you need the money, you take it out of the ISA. I think I'm not sure when it's appropriate to take that last step, but I add to my second ISA periodically to ensure that if I ever need the money therein, there will be 'enough'.

"I've started using online banking. I like it for checking statements, paying my credit card bill, and occasionally throwing chunks of money at the Student Loans Company to attempt to stave off the interest they keep adding to what I owe them. It's handy and convenient, and the bank makes it feel secure. I would never do it over a mobile phone, though. I can't say I visit my branch often, but I sometimes have cheques to pay in, or need something explaining, and they're useful for that.

"I get the impression that the bank assumes I already know everything about their various services; why else would they send me letters and leaflets full of incomprehensible figures, percentages and jargon? Maybe there was a point in my life I missed where all this stuff was explained, because I look at these things and am nothing more than confused, thinking, 'I don't think I want this ...' before half-guiltily putting the leaflet in the bin and running away. I was given no financial education at school or university.

"However, I have never been in debt. I'm terrified of the notion. I somehow managed to get through university without venturing near my overdraft (a near-unique phenomenon, speaking to my friends about it), and the only time it has been a concern was when, as a teenager, my parents inadvertently paid off a large bill using my cheque book, and I received communication from the bank informing me I was £3,000 over my overdraft limit. Happily, this was resolved, and I believe I now have 'enough' money stashed away that it shouldn't be an issue – for a little while, at least.

"It would be nice to know how financial services work, because clearly I don't, but I'm not sure how much I need to know about them right now. At the moment, I think I'm OK to just continue muddling on with the basic bits I understand, and hope there'll be someone around when I need them to clarify what all those sets of numbers and initials actually mean."

Taj Mudhar

"I do not have a pension fund for four reasons:

- I do not understand how pensions work.
- I hear on the news that people's pensions have devalued because of the economic crisis. They are not getting the returns that they thought they were going to get.
- I did a module at university called Personal Financial Planning and I was told by my lecturer that British Airways' occupational retirement scheme had a deficit of £3.7bn. This is true, to some extent, of several other companies so do I really want to risk losing or even devaluing my returns from a pension?
- I live with my aunt at the moment but if I didn't, this is what my income and expense for the month would look like:

Income		Expenses	
Salary	£21,000	Rent	£650
(Less Personal allowance)	(£7,475)	Food	£100
		Rail Card Zones 1-4 to get to work	£151
Taxable income	£13,525	Gas	£50
(Less Income Tax and National Insurance of 33%)	(£4,463.25)	Electricity	£50
Add back Personal Allowance (7,475)	£7,475	Mobile Phone	£35
		Home to Swindon for weekend (£25.75 a week)	£103
Net Pay	£16,536.75		
		Total Expenses	£1,139
Pay for 1 month (Divide by 12)	£1,378.06		
Disposable Income	£239.06		

"I cannot add the further outgoing of a contribution to a pension fund. They say that if you contribute towards a pension it reduces your tax expenses but for me this is still not enough. What if I wanted to put away £200 for savings? I would literally be left with nothing. It would be even worse considering I haven't included TV licence, council tax, university fees and water bills. This is a compelling reason why the young might not bother with pensions.

"I have saved all my life. I was able to pay for day-to-day university expenses such as petrol and food because I saved my money from when I used to work at Nationwide building society during my college days. I had a Regular Savings account with Nationwide, which I opened in 2007 where the interest rate was 6.75%. Everything went smoothly with this account as I received £100 in interest for the year by putting away £250 a month. By 2009 the rate went down to 0.1%, so I decided to close the account.

"At present, I have so far saved £3,000 from work and opened a Nationwide online saver account which had an interest rate of 3.25%. However, after doing my research properly I found out that if I put away £1,000 a month in this account I will only get back around £2.60 a month in interest, which is after tax of course. This equates to £31.20 for the year. With the increasing inflation it's not even worth putting money away into a savings account. So I'm not even considering it now. I do not have any debt. My dad paid my course fees by saving my child benefit and I paid my maintenance with the money I saved from working at Nationwide and WH Smith. I regularly check my current account with Barclays online to keep tabs on my income and expense, but don't use it for anything else. I do not have a smartphone so I cannot check my bank account on my phone, but I will only go to my branch when I need something.

"I do not trust doing transactions over the internet. I have only ever brought one product on eBay and that was it. My friend in Swindon was once the victim of fraud, where someone tried to take £1,500 out of his account but luckily he only had £1,000 in it. He buys a lot of things over the internet. At university I took a module in my third year called Personal Financial Planning, which was about saving, debt, health insurance, life insurance and pensions. I barely remember anything I learnt on this course – it was full of jargon and complex terms and acronyms. I still managed to achieve 66% in this module. To this day I do not know how.

"I was quite shocked from what I heard from some of the people on the panel. One person said: "I don't really care what is happening with the recession and economy and all that because I know I am going to be successful anyway." Another said: "I am doing a degree and I am going to achieve a good result so I don't see why I won't get a well-paid job and be successful."

"It's great that these guys are positive and optimistic but this is how I was sounding around April this year when my third year of university was coming to an end. I went for seven graduate interviews in Swindon and got none of the jobs I'd applied for. These people don't realise how hard it is out there and they have not seen hard times.

"I have good financial discipline because I have seen hard times. My dad worked 90 hours a week in a corner shop to put food for us on the table. I lived on £150 for 4 months after uni when I was looking for a job. I didn't even consider borrowing from my family or the bank.

"It seems to me that young people focus too much on materialistic things such as iPhones, BlackBerrys, game consoles, clothes etc. Nowadays we associate 'cool' with having money, or the latest technology or the clothes we wear, the holidays we go on. These are the materialistic things which are draining young people's pockets."

4. Choosing a bank

Young people are faced with a wide range of options when it comes to picking a bank; indeed, a sub-industry has sprung up advising them on which to go for, evaluating benefits – including the best interest rates, the biggest interest-free overdraft, introductory offers and/or the latest technology in contactless payments – and who offers the best customer service.

How to pick a bank – and why

Our original perception was that young people, especially students, would change accounts often to benefit from inducements offered by banks, such as a free five-year young person's rail card as well as discounts on items ranging from laptops to clothes to games and free travel insurance. And this is before we factored in more generous interest-free overdrafts.

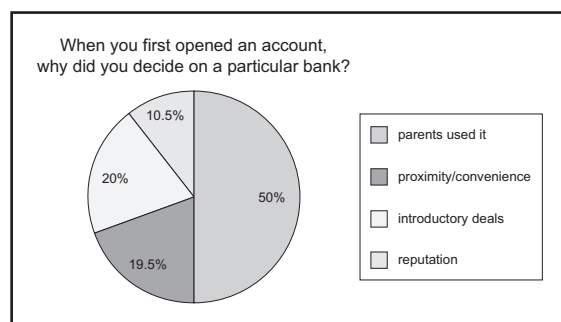
However, students are less fickle than we thought. Research carried out by Accountz in February 2011 found that incentives of this kind have only limited effectiveness: more than 70% of students said that they would prefer to receive more advice and support from their bank with budgeting, rather than inducements such as railcards.⁶

We wanted to find out what really drives the choice of a bank for young people, and how likely they are to remain with the same bank. After all, a recent Which? Money survey found that 62% of respondents stayed with the same bank for 20 years or more.

The survey findings

We asked three questions:

- When you first opened an account, why did you decide on a particular bank?
- Do you have accounts with more than one bank/building society? And if yes, how many?
- Have you ever closed your account and switched bank/building society?



When you first opened an account, why did you decide on a particular bank? Half of our respondents opened their first account at the same bank as their parents; almost 20% did so to take advantage of introductory deals, and 19.5% chose their account for reasons of proximity/convenience. Fewer than 11% chose a bank on the basis of its reputation.

6. Accountz, February 2011. <http://www.realwire.com/releases/Book-vouchers-and-British-Rail-cards-arent-enough-say-students>

The influence of parents was strongest in the younger age range: of those under 20, 54% went for the same bank as their parents. This group was much less likely to be attracted by introductory deals (6%), but were more aware of a bank's reputation: 23% said they chose their bank because of its reputation.

Overall, men were more enticed by introductory offers (23%) than women (17%), but the women set more store by reputation than the men (13%, compared with 8%).

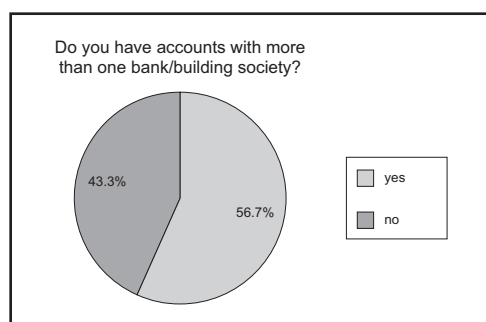
Several essayists had had their first accounts opened for them by family members:

- “My student account was not in fact my first bank account, as I am lucky enough to have a savings account with a standing order from my grandparents that adds to it once a month.” (Adam Savinson)
- “I am very fortunate that my parents have planned savings for me from a very young age. While certainly no millionaire, I am lucky to have a bit of money to fall back on.” (David Stansbury)

For those attracted by inducements, one group was particularly drawn to the railcard:

- “Speaking to my peers, I immediately found out about how they all chose which bank to use: the one that offered a free railcard worth £20.” (Adam Savinson)

Multiple loyalty?



Do you have accounts with more than one bank/building society? Just under 57% of respondents had more than one account. This was roughly the same across all socio-economic subsets of respondents.

If yes, how many? Of those who told us how many accounts they had, the majority had two or three, although some had up to seven accounts.

Those who had not been to university at all generally had fewer accounts than those who were currently studying or had already graduated – 28% of non-graduates had more than one account, compared with 59% of current students and 63% of graduates.

Those who had been to private school generally had more accounts – 59% of ex-private school respondents had more than one account, compared with 55% of those from state schools.

The responses revealed a fairly nuanced and sophisticated approach to choosing which type of account to open. Several had separate savings accounts at different banks based on more favourable interest rates – including the Post Office, NS&I accounts and different ISAs.

The written answers demonstrate how young people often split their money into different “pots” depending on what the money is earmarked for:

- “I have a high-risk investment account for my pension and retirement – as it is so far in the future ... you might as well put it into a high-risk account... the

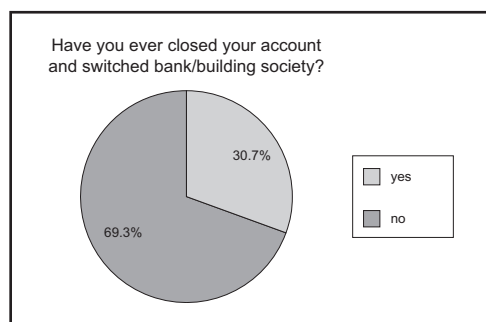
other half [of my money]... I might need relatively soon, so I do not want to risk losing it.” (Ed Kaznowski)

- “I prefer to diversify my savings into different ISAs.” (Anonymous)

A few split their money into different accounts as a means of controlling their spending:

- “The eSavings account helps me to stick to a budget: if I kept all my money in my current account I would be more likely to spend it. If I do ever overspend slightly, it is easy for me to transfer some money from the savings account back over to keep in balance.” (Ella Berny)
- “I generally transfer more than I would like to save per month. This means that I can dip into my savings if necessary.” (Niamh O’Kane)

Changing one's bank



Have you ever closed your account and switched bank/building society? Fewer than a third (31%) had done this, and this was true across all ages and both sexes.

Those who had moved to another provider cited several reasons, including poor customer service:

- “Service was very bad at my old bank and I did not receive regular [monthly] communication from

them regarding the status of my account.”

- “[Not] very kind to students.”
- “[They were] a bunch of excessive fee-charging, money-grabbing bastards.”
- “[My] bank went bust: I lost confidence in it and moved.”

Others chose to switch for better rates.

- “Interest rate in another bank was higher.”
- “[I switched] to get [a better] interest rate on savings.”
- “It was an account specifically preferential for up to 16. Once I’d reached 16, I could achieve significantly better rates elsewhere.”

Some closed their accounts to streamline their finances

- “I began using one more than the other so emptied my less-used account to simplify everything.”
- “Trying to get all my accounts in one place.”
- “Had multiple student accounts, closed as I paid off overdrafts.”

And what did the essayists think?

Cecilia Makinde

“Having relocated recently, I have not been able to put money aside like I used to. In my previous job, I still lived with my parents and was able to save £500 a month. I had a pension scheme then but did not make any personal contributions.

“While I haven’t been able to save recently, it is important to me, and once I can better manage my outgoings I plan to start saving again. Right now I’m having to pay for rent, bills, travel home and all the other costs associated with moving out.

“As such, I plan to open an ISA account soon and will probably start saving small sums initially but build that up gradually. I do have a pension plan through my employer and pay 6% of my salary into the scheme on a monthly basis. While retirement is still a very long time away, I am still conscious of the fact that the earlier I start saving, the more I will accumulate and the less I will feel deprived of the money which I have to put aside. I feel that making small sacrifices now will greatly benefit me in the future.

“I have a student debt. I feel quite indifferent about it in the sense that it is a justifiable debt which has to be repaid anyway so I am happy to meet my repayments until it is paid in full. Saying that, starting a new career with a huge debt behind me doesn’t bring the happiest thoughts. However, as I know that my student loan was an investment for my future, I feel OK about it.

“My only vexation with the student loan is that, as with most loans, a lot of time is spent repaying interest as opposed to the actual loan. Whilst this is totally justifiable seeing as lenders must make money, the student loan was initially sold as being interest-free. I am now better informed and have learnt that this is not so. Even though it is something that I am happy to pay, I do feel that consumers ought to be told the truth from the outset.

“Although I do feel that people ought to be responsible enough to look into these things, I feel that a student who cannot fund his or her own studies independently does not really have a choice as to whether he or she ought to take a loan or not. As such, I feel that the student loan company has a duty to keep students better informed – I might have been naïve at the time I took out the loan, but I do feel there should have been greater clarity about it.

“I would like to reiterate that I am perfectly happy to pay interest as nothing in this world is free, but I would have liked to have been told beforehand about the actual cost of the loan as this is all part of treating customers fairly.

“I feel that technology is great for basic execution-only transactions or to allow consumers to view and manage their wealth. Examples of this include paying in money, online banking, pre-ordering currency, that kind of thing. The technology in this case makes life easier, is excellent for record-keeping and can be extremely helpful should anything go wrong.

“However, technology isn’t so great where advice is needed. A computer cannot assess needs and behaviour accurately and when used in conjunction with face-to-face advice, it can sometimes be misleading. In these circumstances, I feel that conversations ought to be recorded whether it be when advice is given over the phone or face-to-face. This might be costly and hard to implement, but I feel that this would be a genuine step towards instilling confidence in the industry.

“I had no financial education whatsoever but feel that it is extremely important. In previous jobs, I have been able to learn a lot more but still feel that I know very little. Financial education becomes very important especially at the point where you are first expected to make important financial decisions, eg at college where people might start thinking about ways of obtaining credit

“People should receive financial education from a young age, especially before and during university, and schools or financial services should play a greater part.

“Post-university, most people should have developed a level of maturity, understanding and a sense of personal responsibility with regards to managing their wealth, at which point responsibility should rest with the consumer – placing the burden on financial services would be unreasonable and excessive.”

Niamh O’Kane

“I have reasonably good background knowledge of financial services, but I always feel that it could be better. At school and university I did not receive any form of financial education. Most of my knowledge about financial services – banks, credit cards, etc – comes from speaking to my parents and my friends. My impression is that financial services companies assume that young people possess more prior knowledge than they actually do. As part of my legal training I attended a course on finance and business skills, which taught me some basics about ISAs and other saving options. I found this useful in both a professional and a personal capacity.

“In my previous job I joined the pension scheme as my employer made contributions to it even if I did not. The company had a dedicated pensions team who explained this to me along with the various ways that the contributions could be invested. In my current job, I have not yet joined the pension scheme. Contributions of 3%, the minimum permitted, would cost roughly £90 per month. Although I am aware of the importance of contributing to my pension, at the moment I would prefer to put that money towards reducing my debts. I do intend to join the pension scheme within the next year or so.

“Generally, I try to save some money every month. As soon as I get paid I transfer a sum of money to my savings account. I usually transfer more than I would like to save per month. This means I can dip into my savings if necessary. It also means that if I am a little bit more careful with money one month or if I don’t have to incur any significant expenditure, I end up saving more than I usually would. Realistically, I am just saving to pay off my debts. Once my debts have been paid off I will continue to save, perhaps for a deposit on a house or flat, or just to have a financial cushion.

“Online banking is absolutely critical – I would be lost without it. It means I can check my bank balance and any incoming and outgoing funds on a daily basis. I can manage my savings account, set up standing orders and transfer money to people. I receive e-statements now rather than paper statements but I use my online banking so often that I never have any need to view my e-statements.

“Using my mobile phone for banking transactions is not particularly appealing to me. Perhaps if I were to get an iPhone I would change my mind, but at the moment I am content to access online banking via a computer.

“I grew up in Northern Ireland and I still bank with the same local branch there. My bank has no branches in mainland UK. This is inconvenient when I need to pay a cheque into my account, but this happens less and less frequently nowadays.

“The advantage of keeping my Northern Irish bank account is that I can easily contact someone in my branch (admittedly, via the main Belfast office). There are several relationship managers; I can be in touch with them via email or the phone. I like the fact that this element of personal service is maintained, even though I don’t often physically go to my branch.

“I recently opened a Barclays bank account in London, but I haven’t been to my branch since I opened the account. Although I have found their helpline very useful, there just isn’t the same element of personal service or contact that I get with my local bank.

“Like most people of my age who went to university, I am in debt. Currently my debt stands at roughly £13,500. This is broken down as £9,000 student debt, a £3,000 bank loan and a £1,500 overdraft. I know that the interest rates on my student loan and bank loan are quite high, but I would not be able to say what they were off the top of my head.

“My overdraft is interest-free. It is quite important for me to reduce my debt. I tend not to think about my student debt very much, as it is quite a large amount and repayments are deducted from my salary automatically every month. I would like to be out of my overdraft soon and in the black, but my priority is to reduce the bank loan first as the interest on it is quite high whereas the overdraft is interest-free.

“Generally, I try not to worry about money too much but I do worry that being in debt makes it harder to save. This in turn makes it virtually impossible to harbour any aspirations to buy a house or flat in the near future. I am in a well-paid graduate job so I do wonder how people less well-off than me manage to balance the cost of living, reducing debts and saving.”

David Pearce

"I think there's too big a focus on the 'right now' rather than on longer-term thinking, which stops people – before and after university – from thinking about financial services. Credit cards, pay day loans, interest free credit for products such as TVs etc, mean that many people including myself are budgeting for each month as it comes as opposed to long-term commitments.

"At university I was only ever concerned about where tomorrow's money was coming from to afford my general living. When I left university it was a nice change to have a salary coming in each month – and with this the excitement of being able to afford some clothes, or a night out for example. Having said this, my starting salary was not large, so it was a choice of a few nice things for myself or saving for a pension/house. I very much went with the former for two to three years until my salary began to increase.

"Now I am in a situation where I earn enough a month to enjoy a comfortable lifestyle and put some money away. So it's only in the past year, of my four-plus years in employment, that I've been able to consider saving money and contributing to a pension.

"Relatively speaking I don't think I have that much debt. I have £3,000 in student loans left; £1,500 on a credit card, two student overdrafts totalling £3,000; and a graduate loan of £1,000 – so £8,500 in total.

"I'm aiming to have paid this off by June or July of this year, while also putting between £500 and £1,000 in an ISA. Why an ISA? Purely because a number of senior colleagues and family suggested it was the best method to earn interest. I have no understanding of the various savings methods available and am happy to get an ISA based on recommendations.

"Regarding my pension, I will be signing up to my company pension although I am not informed enough to know if they offer a good rate or not.

"I think in school and university there are opportunities to educate yourself on financial matters, but you do have to look for yourself. For me, it wasn't a concern and I can't tell you what I was offered at Nottingham University, which suggests that what was on offer was not well publicised.

"I think banks can rely on a lack of understanding from most of their customers who miss important clauses in contracts such as how long your overdraft is interest-free for, the fines for going over your balance, the fact they can legally require the entire amount back at any time, etc. Students are not going to read through a 10-page contract.

"We're a lazy society; technological advancements such as online and mobile banking are used by me and most of my peers. And there's an inherent trust in the huge top-tier banks such as HSBC or NatWest – we trust that they have appropriate security in place and that online banking won't have security issues.

"I think there's more reticence among older generations who aren't as comfortable with new technology as my generation – we've grown up with it.

"Having said that, there's been a shift in what's classed as "young": more and more people of 30, for example, are still living their lives as if they were still 21. Pensions, savings etc are all associated with growing up – and that's something people are putting off as long as possible."

5. Savings and investment

As with debt, attitudes to savings have changed significantly over the past decades: we save less and our confidence has been shaken by events such as the mis-selling of payment protection insurance (PPI) and endowment mortgages. The persistence of historically low interest rates has also had an effect on savings, while the recent increase in inflation has eroded the value of whatever savings we have put aside.

According to a survey in January 2012 by Scottish Widows, the average amount saved during 2011 (with savings defined as money which is actively put to one side and not counted as disposable income) was £2,393.⁷ More generally, Scottish Widows found, savings are falling: more than 57% are now saving less than they were in 2009.

Some participants at our original round-table wondered if younger people saved anything at all, as they have student loans to worry about, active social lives, lower incomes and the luxury of time. This view was supported by recent research published by the Institute for Public Policy Research (IPPR), which found that young people were finding it increasingly difficult to save.⁸

Not many of the young people we surveyed saw saving as a priority. Many additionally remarked that it was more sensible to pay off debt first with any spare cash than to save. Some also failed to see the benefits of saving.

However, as a group, they felt saving was important, and it was something they believed they would do as soon as they had the means. Many already have some savings, while others would like to save but didn't have enough disposable income to set up a financial cushion.

The survey questions looked chiefly at how much they had in savings and where they kept them.

The survey findings

We asked five questions:

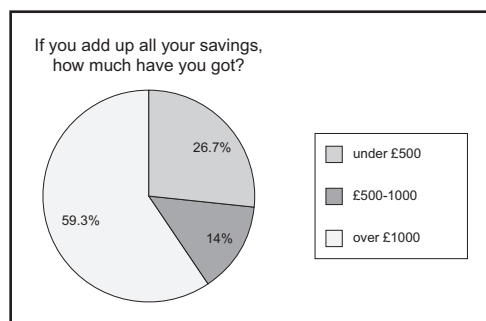
- If you add up all your savings, how much have you got?
- Where do you keep your savings?
- Do you own any shares?
- If yes, did you buy them yourself?
- Do you own any other investments?

7. Reference.scottishwidows.co.uk/docs/47480.pdf. "Scottish Widows Savings and Investment Report 2012 Preparing for the Future: Britain's Savings and Investment Landscape." January 2012.

8. IPPR report, Laura Bradley, Feb 2012. "Young People and Saving".

**Savings –
not a
priority?**

How much?



If you add up all your savings, how much have you got? Of our survey respondents, 73% had at least £500 in savings, and just over 59% had more than £1,000.

Women generally had lower savings than men, with 55% having more than £1,000 of savings compared with 63% of men. Among the 20-25 age group, 61% of women had savings of more

than £1,000 while 69% of the men in this group could say the same.

27% of all respondents had less than £500 in savings overall – 26% of females and 28% of males.

The essays also revealed significant differences between men and women's attitudes to savings. Female respondents tended to put a fixed amount of their salary into a savings account and generally seemed to view it as a nest-egg, as well as valuing the discipline of putting money aside regularly:

- “As soon as I get paid, I transfer a sum of money to my savings account ... once my debts have been paid off, I will continue to save, perhaps for a deposit on a house or flat, or just to have a financial cushion.” (Niamh O’Kane)
- “It allows me to stick to a budget ... if I do ever over-spend slightly it is easy for me to transfer some money from the savings account back over to keep in balance.” (Ella Berny)

Men tended to view saving as more of a challenge, or even a game, with the rewards being better deals:

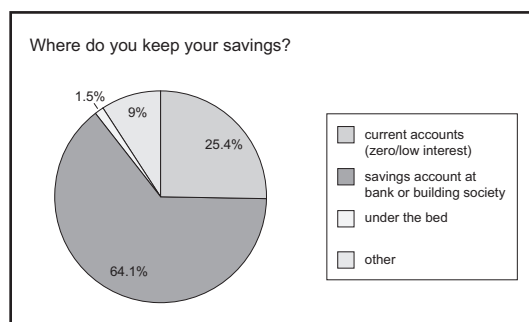
- “I’ve recently moved [my money] from a fixed rate ebond to another provider who is offering a slightly lower rate of return of about half a percentage point but offering the chance of a lump sum win of cash.” (David Stansbury)
- “It’s easier to resist raiding a savings fund if there’s a tangible prize within grasp.” (Keyur Patel)

The young men we surveyed also appeared more likely to diversify their savings vehicles, choosing shares, equity funds and index-linked certificates. Of the survey respondents, the men kept their savings in anything from stocks and shares, to equity funds to index-linked certificates, whereas young women seemed to prefer to keep their savings in one place:

- “I’m only saving a bit (10%-20%) of my income at the moment. This is split into two accounts. I have a high-risk investment account for my pension and retirement; the other half is for saving towards a deposit on a house. That’s just in a savings account as I might need it relatively soon: I don’t want to risk losing it.” (Ed Kaznowski)

Young people generally tended not to regard savings as a fund that could be used to pay off debt. Anecdotal evidence from the essays suggests that some savings had been provided by family, and that this money, in particular, was seen as for the future rather than to enable them to pay down debt:

- “My parents and grandparents have always saved money for me. I consider this money to be for future investment rather than something I can dip into. I think I will use it either to fund future study or put it towards a deposit for a house or a flat.” (Ella Berny)



Where do you keep your savings?

64% of respondents kept their savings in a savings account (and mostly in ISAs), while 25% kept their cash in a low-interest or zero-interest current account. Just over 10% kept them elsewhere, including in property, premium bonds, trust funds or shares. Women tended to go for traditional vehicles such as a current account or a savings account.

Where?

The “other” answers showed that some in our survey (mainly men) preferred to diversify:

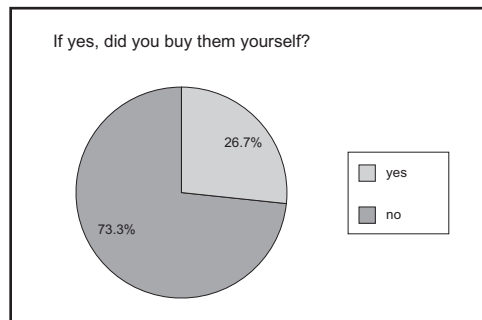
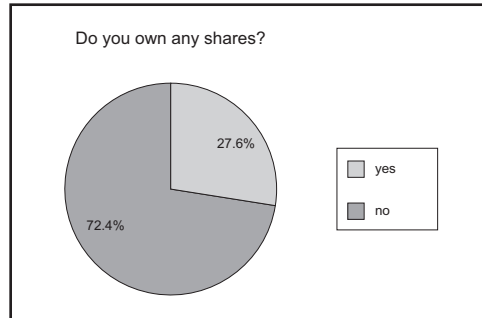
- “Savings account at bank or building society and company stocks.”
- “Two savings accounts, portfolio at stockbroker etc.”
- “Cash, shares, commodities.”
- “I prefer to diversify my savings into different ISAs.”

We also asked about investments, with a view to understanding what young people saw as safe investments and what had motivated them to invest. Our assumptions were first, that young people would not hold many investments (defined as non-cash holdings such as shares, bonds, gold or property) and second, that parental influence might drive investment decisions:

We asked three questions:

- Do you own any shares?
- If yes, did you buy them yourself?
- Do you own any other investments?

What kind of investments?

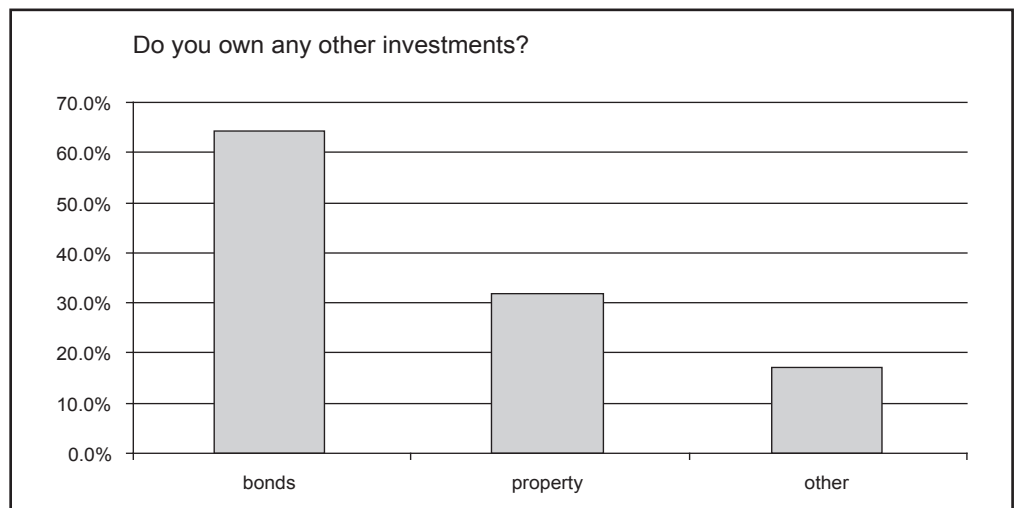


Do you own any shares? Of the respondents, almost 28% held shares - 32% of males and 24% of females. Split by age, 30% of 20-25 year olds owned shares, compared with just 16% of under-20s. The starkest difference was between university graduates and non-graduates (including under-20s) – 32% of graduates owned shares, but only 4% of those who were not graduates.

If yes, did you buy them yourself? Of those who owned shares, our assumption that most had not bought them themselves was correct: less than 27% had made the purchase themselves.

Do you own any other investments? We asked about other investments: 64% of those who had an investment portfolio owned bonds (presumably, mostly children’s bonds) and 17% had

“other” investments. For this question, respondents were allowed to tick more than one box. 64% of the under-20s held bonds, while the figure for the 20-25 age group was slightly higher at 67%. Slightly more males than females had them (67% to 63%).



Other investments included property, bullion, art, investment funds and private company shares.

The essayists tended to be risk-averse, and aware that most investments are for the long term. Indeed, they tended to see them as long-term savings vehicles:

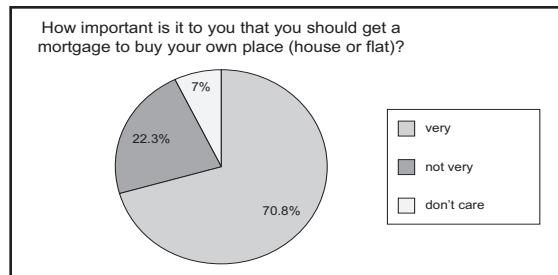
- “I consider this money to be for a future investment rather than something I can dip into if I’m ever low on cash”. (Ella Berny)

- “I [would].use ... [my savings] to fund further study or put it towards a house/ flat deposit (which I consider my greatest financial worries).” (Ella Berny)
- “I am hoping to be able to get a mortgage with my partner in the next few years.” (Megan Rex)
- “I list medium-term goals, say, to put down the deposit on a mortgage.” (Keyur Patel)
- “[My savings are] ... split into two accounts. I have a high-risk investment account for my pension and retirement – as it is so far in the future (I’m 22) you might as well put it into a high risk account. The other half is saving towards a deposit for a house and is just in a savings account as I might need it relatively soon, so I do not want to risk losing it!” (Ed Kaznowski)

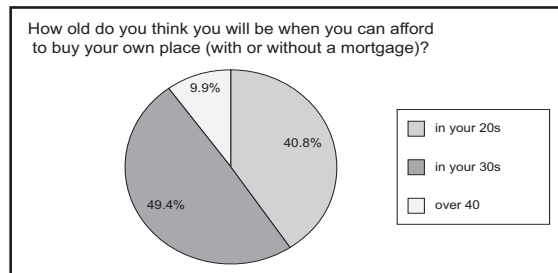
From investments in general, the next set of questions focused on property. We asked two questions:

- How important is it to you that you should get a mortgage to buy your own place (house or flat)?
- How old do you think you will be when you can afford to buy your own place (with or without a mortgage)?

What about a mortgage?



How important is it to you that you should get a mortgage to buy your own place (house or flat)? Getting a mortgage was “very important” to nearly 71% of respondents; “not very important” to just over 22% – and the rest answered that they “don’t care”.



How old do you think you will be when you can afford to buy your own place (with or without a mortgage)? Answers to this question revealed surprising optimism on the part of respondents, with close to 41% saying they thought they would still be in their 20s when they got their first mortgage although nearly half (49.5%) thought

they would not be able to afford a property until they were in their 30s. Only 10% feared they would have to wait until they were in their 40s. The actual average age for first-time buyers at the present time is 35, according to research from Post Office Mortgages.⁹

Nearly all the essayists spoke of buying their own homes at some point, eg:

- “I prefer to keep my capital intact in case I need it for another purpose, such as a deposit for a house.” (Calum Fuller)

9. <http://www.propertywire.com/news/europe/average-age-of-first-time-buyer-in-uk-rises-to-35-201108235484.html> Post Office Mortgages research. August 2011.

And what did the essayists think?

Ed Kaznowski

"I have just begun working and earning enough money to start thinking about these issues: before I had any money, I did not think about personal finance at all.

"Now that I have enough money to do a bit of saving, I am being slightly leaned on by my family to start putting some away. Although I do see the need to save a lot of money at some point, I think that it is more important to spend money now (while you do not have a large income) and save a larger proportion of a (hopefully) much larger income later. So I am only saving a bit (10%-20%) of my income at the moment.

"This is split into two accounts. I have a high-risk investment account for my pension and retirement – as it is so far in the future, I feel you might as well put it into a high-risk account. The other half is for saving towards a deposit for a house – it's just in a savings account as I might need it relatively soon: I don't want to risk it. I don't have any other savings – although I might get some help with property in the future from my family.

"I am very positive about the future of technology in finance – I was very surprised that some of my peers still valued a branch! Recently, I have been temporarily unable to do portable internet banking (due to the new card-reader that HSBC sent me) and it is infuriating. I would use mobile phones for all banking transactions – as long as there was a trusted representative of the bank I could call if I had any queries. If this support were lacking, I would hesitate to rely completely on mobile banking.

"I try not to visit my branch at all – I make my own financial decisions, so I don't really see a need for it.

"I did not have a financial education at school or university as such, but I did do economics at university so that probably makes up for it. While I see the need for financial education for kids growing up, I struggle to believe that those types of classes would be taken seriously by children and young adults – both in the public and state school system.

"I now work in the marketing department of a financial services firm so am fully aware of the huge amounts of information about individuals that companies hold. What particularly shocked me about this was not the financial services companies holding credit details etc, but the way companies use social media to find out data about individuals.

"However, the longer I have worked here, the more I am beginning to see the benefits of this for consumers – ie targeted adverts for stuff they might need, targeted coupons for cheap deals etc. So for me it works both ways, as long as companies are responsible with data and privacy and there is strict regulation that governs it.

"I do have student debt – I think it is around £10,000 but I do not worry about it. From my economics degree I have learned not to look at figures and jump to conclusions. Ten grand is a lot of money over a year. But compared to my earnings potential (much of it gained from my degree) over a period of about 40 to 50 years it is insignificant – unless something dramatic happens and my earnings collapse!

"However, if I did get my hands on a lump sum of money, I would try and pay it off, as I would rather not be paying interest on it (I don't know what it is – the Government should make that clearer). But it does not worry me, as it gets paid off automatically anyway through payroll."

Megan Rex

"I have always managed my money carefully, a trait passed down by my father. I used to find his level of organisation and planning rather unnecessary and somewhat amusing. A few years down the line, however, and I have realised the importance of this (particularly in today's economic climate) and am truly grateful for the understanding I gained as a child.

"There are some things that might be unnecessary. For instance, I still file all bills and statements into folders. Organised? Yes. Cluttering up my flat with my financial paranoia? Perhaps. But as far as I'm concerned, it is better to be organised than not.

"When I attended the CSFI roundtable, I was surprised that the majority of the young people taking part in the discussion felt uneasy with some aspects of financial technology and still see the need for a local branch. Matters of security surrounding making payments on mobile phones were raised, while the concept of the secure key for internet banking was met with a unanimous dislike. It makes you wonder what level of security is needed to strike a balance between being acceptable and being too much of a hassle.

"I also wonder what degree of financial knowledge I would have if I had not gone into financial services PR. Topics such as auto-enrolment and PPI come as second nature to me now and I find it odd when my peers know nothing about them. But is it to be expected that young people who are not working in financial services don't know a great deal about finance? Or should it be taught from a young age?

"My understanding of the financial services industry has undoubtedly helped me to make decisions that I'd otherwise have been clueless about. I am fortunate to have some savings and due to my understanding of the market, I have been able to invest it in the best possible (and relatively risk-free) places to get the highest returns, while understanding the terms and conditions of these accounts.

"T&Cs [terms and conditions] are however somewhat opaque to young people. It is important to fully understand what you are signing up for, particularly if it is for a long-term product such as a mortgage or a fixed savings bond. I am hoping to be able to get a mortgage with my partner in the next few years, and my exposure to the industry has undoubtedly helped me make steps in the right direction.

"As I write, a debate in the Commons has been taking place on whether to have compulsory financial education in schools. If this is what is needed to stop people making the same mistakes time and time again and to avoid another credit crunch, I am all for it. Whether I'd have appreciated those classes myself at 13 or 14 is another story, but, much like other knowledge passed down by my parents, I might not have appreciated it at the time, but I certainly do now."

6. Pensions

Although pensions have had a bumpy ride recently, with blows including the closure of final-salary schemes, the uncertain fate of defined-benefit public-sector pensions, tax changes, the way pension increases are calculated and the mis-selling of private pensions, our respondents nonetheless were generally convinced by the desirability of contributing to a pension scheme.

That said, many of our respondents found pensions confusing - including those who were already paying into a scheme.

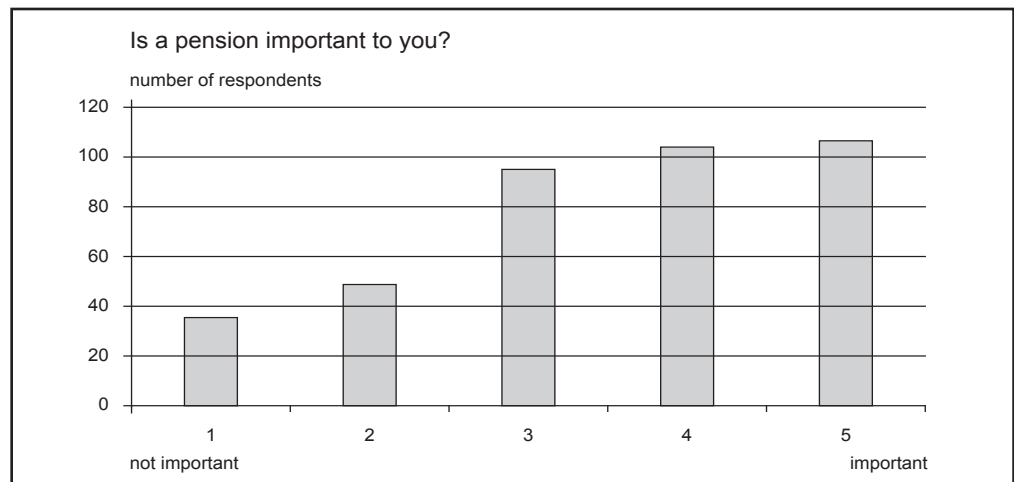
The survey findings

The very long term...

We asked five questions:

- Is a pension important to you?
- Do you already contribute to a pension?
- If yes, what kind of pension?
- If yes, is your pension (further list of options)...
- How old do you think you will be when you can afford to contribute to a pension?

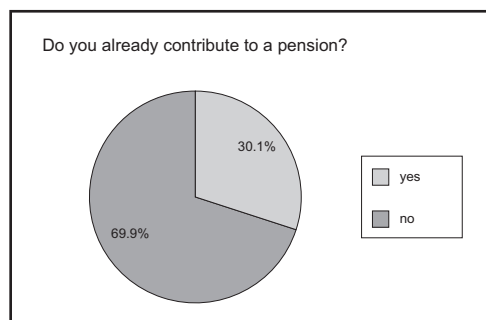
Is a pension important to you? This question was marked on a sliding scale, with 1 being 'not important' and 5 being 'very important'. Of the survey respondents, 76% ranked pensions between 3 and 5, with answers divided roughly equally between them.



Do young people think about pensions?

The essayists also generally recognised the importance of contributing to a pension scheme.

- “I started paying towards a pension primarily because I understand it’s something you’re supposed to do at some point.” (Daniel Watkins)
- “Having something to fall back on in old age is crucial.” (Keyur Patel)
- “While retirement is a long time away, I am still conscious of the fact that the earlier I start saving, the more I will accumulate and the less I will feel deprived of the money I have to put aside.” (Cecilia Makinde)
- “I will [be] signing up to my company pension although I am not informed enough to know if they offer a good rate or not.” (David Pearce)



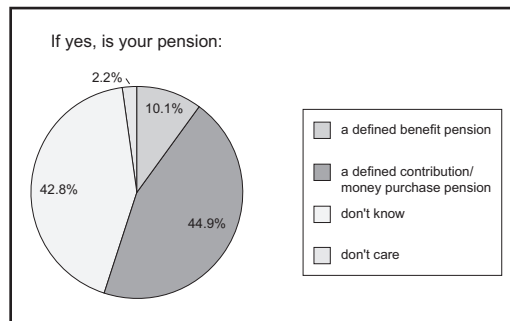
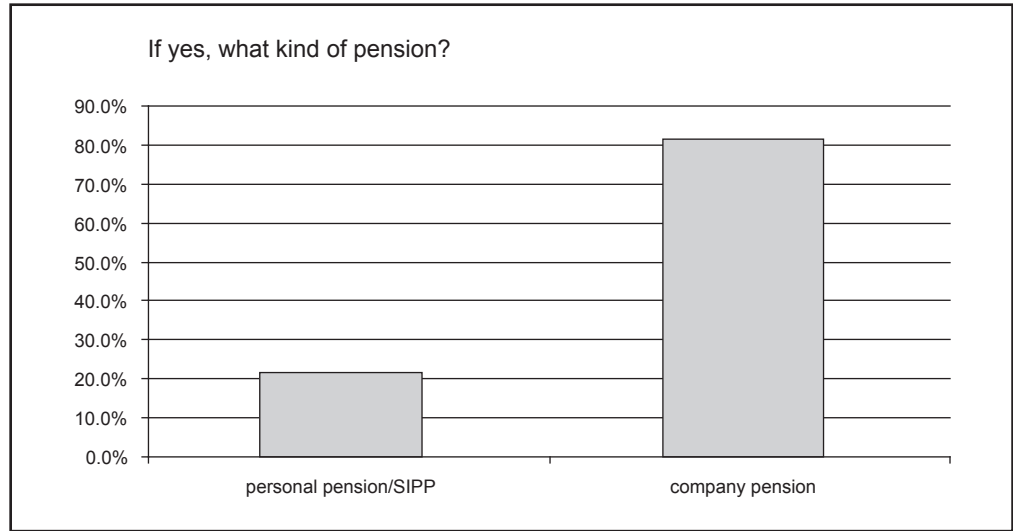
Do you already contribute to a pension? The second question found that most survey respondents (70%) are not yet contributing – even though most know that contributing to a pension is important.

Overall, 30% were contributing – 33% of men and 28% of women. The reasons for not contributing included a lack of funds, fears about the inflexibility of

pension schemes, and the uncertainty of a pension fund:

- “What if I want to put £200 away for savings? I am literally left with nothing.” (Taj Mudhar)
- “I feel afraid of losing the employer contributions every time I have to change job because of not being able to arrange the transfers within the time limit, or because I am not allowed to transfer it.” (Serena Vecchiato)
- “I’m uncertain on whether contributing to a pension fund is worthwhile, especially now the final-salary scheme is all but dead.” (Keyur Patel)
- “Until a couple of years ago, the money you had in your bank and your future pension was considered to be safe ... what I have experienced with the sovereign debt crisis has completely shattered any concept of financial security I ever had.” (Eva Galigali, who is Greek)

... do they know anything about pensions?



If yes, what kind of pension? Of respondents who were contributing to a pension, 82% were paying into a company scheme and 22% into a personal pension. Men were more likely (26% compared to 16% of women) to pay into a personal pension compared with women, 84% of whom paid into a company pension:

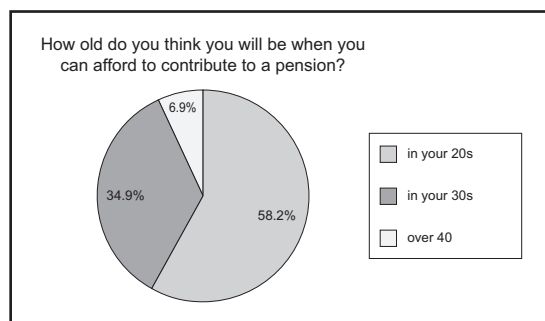
- “I started paying towards a pension primarily because I understand it’s something you’re supposed to do at some point, and the earlier you start funding it (I was 23), the more you will presumably have when it comes to the time you’ll actually need it.” (Daniel Watkins)

Type of pension: The next question sought more detail about the type of pension that respondents were contributing to – and revealed that many did not have a good understanding of what sort of scheme they were part of. 45% said they were contributing to a defined contribution (or money-purchase) scheme; 10% were in a defined benefit scheme (such as a final salary or similar scheme). However, 43% said they did not know. Perhaps surprisingly, just 2% said they did not care.

The essay responses confirmed that many young people have only a hazy knowledge of how pensions work:

- “I know that I pay x amount, and my employer pays a slightly larger x amount, and it all goes ... somewhere. That, I don’t know ... The mechanics of the operation beyond that are not something I know about.” (Daniel Watkins)

- “I simply do not bother with a pension because I don’t want my returns devaluing and I just simply do not understand how they work.” (Taj Mudhar)



How old do you think you will be when you can afford to contribute to a pension?

Given that nearly a third of survey respondents were already contributing to some sort of pension, it was no surprise that approximately 62% said they anticipated contributing while still in their 20s. Of the rest, 35% said they would contribute

in their 30s, with just 6% convinced they would not contribute until their 40s.

And what did the essayists think?

Keyur Patel

“Of all the precautions I can take to protect my future quality of life, shrewd money management might be the most obvious. There are compelling arguments for people of my age to start now: to save diligently, even when that involves uncomfortable sacrifices; to pay down debts while interest rates are low; to actively make provisions for retirement and so on.

“The question is, how to do it? It's difficult to look urgently at a problem half a century or more away when faced with more imminent financial concerns, and the temptation of spending now. So my current strategy for saving is a compromise.

I list medium-term goals (say, to save for a deposit on a home) and put aside a set proportion of my income each month, based on what I think I can afford. It's easier to resist raiding a savings fund if there's a tangible prize within grasp.

“Over the long term, I'm not sure what the best way to make provisions might be. I do wonder if I'll ever be in a position to retire. Perhaps it's easier to be flippant with 50 years to go, but as rising life expectancies bring about demographic changes in the UK, I don't see how we're going to maintain anything resembling the current system, even with recent changes to the retirement age.

“I'm a little concerned about the debt I built up at university, but that at least seems manageable. On the other hand, I'm quite terrified about the monstrous unfunded pension liabilities that my generation will be lumbered with.

“So having something to fall back on in old age is crucial – but I'm uncertain whether contributing to a pension fund is worthwhile, especially now the final-salary scheme is all but dead. The tax incentives are obviously attractive, and it seems a good deal if employers and/or the government agree to top up payments. But there are aspects that worry me. How much is enough to put away? There are plenty of people retiring now who thought they'd contributed enough over their lives, only to find their pension funds are worth a pittance.

“I am concerned that if I went down that route, my pension pot – which I couldn't touch for decades – would be in thrall to regulatory whims and management fees. Maybe the flexibility of ISAs makes them a better long-term saving vehicle. I'll be in a better position to judge when my financial circumstances are more settled.

“Right now, I'm in favour of anything that makes it easier to manage my personal finances, including more and better technology. I only visit my bank branch when I need to cash a cheque, and even that seems archaic.

“Though I'd prefer face-to-face advice for a few big financial decisions, the internet is more than sufficient in most cases, particularly if more banks provided a customer support via instant messaging, or even live video.

"I've used mobile banking services, too, if not often, only because I spend a fair bit of time in front of a computer anyway. And I monitor my online statements frequently – partly to keep an eye on spending and partly because I'm scared of fraud. Security is the one reservation I have about online banking, but I think I take reasonable precautions – I wouldn't log in at a wireless hotspot, for instance. And I'd need to feel convinced that an innovation was safe before using it.

"But in my opinion, the benefits greatly outweigh potential concerns, and as young people become more technologically literate, there's no reason why this can't be used to foster financial literacy too.

"I might have received specialised financial education at school – but I don't remember it, which is the point. I'm convinced it should be a mandatory part of the school curriculum. Relatively new teaching methods such as school banks seem very worthwhile, offering real, practical experience to students. And I think they would find a receptive audience: young people want to learn about managing their money.

"To be fair to the banks, they seem to be investing more resources in educating young people about financial services, though the growing popularity of short-term lenders who charge exorbitant rates of interest is worrying. Given the speed at which the financial world is changing, I'd like them to get more engaged still. It is in their interests as well as ours."

Serena Vecchiato

"As a young person on a pretty good salary, I can afford to put part of my salary into a pension fund, but I choose not to for a couple of reasons.

"First, although I understand the need to take personal responsibility for my future, I have higher priorities than my pension at the moment. Given the current state of the economy in Europe, security now is far more important than security later. And so I want to build up some savings for the unexpected and a deposit before I start thinking about a pension.

"In addition to that, I was talked through my employer's pension scheme when I joined a year ago, but I've decided to leave it until I'm 27, or 30 at the latest. The job market for younger people is very flexible, whereas the same cannot be said for pension schemes. People are expected to change jobs frequently, not only in terms of company, but also of country. So, being an Italian who works in London, it is likely that I will work in other countries, and eventually move back to Italy.

"Pension schemes, meanwhile, are still quite static. I feel quite afraid of losing the employer contributions every time I have to change job through not being able to arrange the transfers within the time limit, or through not being allowed to transfer it. I do think that a more uniform pension scheme across Europe should be on the agenda for further integration in the future.

"Not having a pension fund, however, does not mean I am not a good saver. I put 12% of my salary into my savings account and about 30% of my salary into ISAs. I like the ISA option because you don't have to pay any further tax on the income received and it looks simple.

"Maybe due to my Italian roots, I have a great attitude towards saving, and don't consider debt as an option, unless one doesn't really have a choice and expects long-term benefits from the investment. I don't use any credit cards, and I have a preference for debit cards rather than cash. Debit cards allow me to keep track in my current account of all the transactions done with a direct impact on the actual balance.

"Moreover, I have never had debt or applied for an overdraft. When I needed some extra money to finance my life at university and do some travelling, I worked in a part-time job and sometimes asked my parents for some money which I paid back when possible.

"As a general principle, I think that people shouldn't live above their means. This doesn't mean that they can't do big things in order to fulfil their dreams, but it requires prioritising – a pair of shoes a month or a trip to Brazil in the summer?

"I use the internet to interact with my bank. I do most of my banking via my iPad, which is a lot easier than standing in line at my branch. I also find phone banking very useful, especially when I need clarification and further information. I have only been to my bank's branch once and that was to open my current account.

"Finally, if I may express my view – what I would like to see from a modern bank is a new approach to clients' savings. Generally speaking, savings accounts are made distinguishable for clients in terms of their rate of return and their investment time horizon.

"However, I think banks could gain a competitive advantage by making clear the nature of the investments that banks are going to finance with those savings. This would engage clients and encourage further saving as people can see an added value in it – one that goes beyond banks' own profits, to meet higher investment aspirations and contribute to the growth and development of specific industries and companies in the economy."

**One
area
where
real
change
has
occurred**

7. Payments

The payments environment has been dramatically changed by technology. Much of this is down to the growth of internet shopping and greater familiarity with cards. Conversely, the use of older forms of payments – notably cheques – has declined sharply in importance.¹⁰

However, despite our expectation that younger people would be keen to use emerging technologies (such as contactless payments via mobile phones), it seems that more traditional forms of payment haven't entirely had their day. Most survey respondents and essayists were clearly in favour of online transactions – but with caveats:

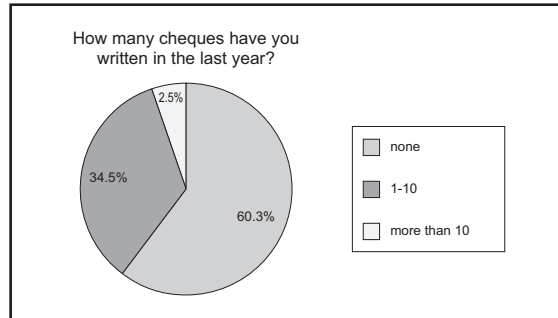
- “[It] ... means that, when I am being disorganised ... I can pay a bill at the 11th hour without any problems.”
- “I consider online banking to be absolutely critical. I would be lost without it ... I can manage my savings account, set up standing orders and transfer money to people.” (Niamh O’Kane)
- “I have never set up a direct debit or standing order online... because I don’t trust my fingers to always hit the right keys, and may soon find myself transferring money to quite the wrong person/people.” (David Stansbury)

The survey findings

This part of the survey asked how young people felt about traditional methods of payments compared with more high-tech ones. We then tried to find out when they might need to use different payment systems:

- How many cheques have you written in the last year?
- Do you have a PayPal account?
- Do you have similar accounts (eg Google Checkout)?
- If yes, please specify.
- Do you use direct debits/standing orders?

10. www.chequeandcredit.co.uk/information/-/page/key_cheques_facts-and_figures/ 2010



How many cheques have you written in the last year? The response to this did not come as a surprise given the overall decline in the use of cheques: more than 60% had not written any cheques in the past year. Among the under-20s, this figure rose to 81%.

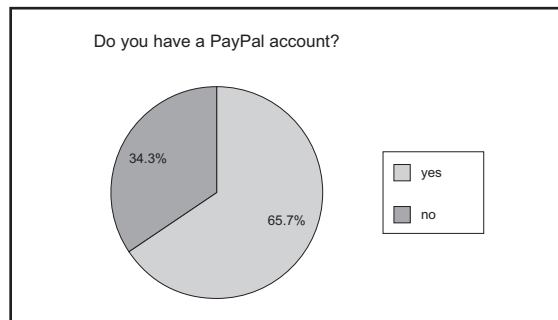
However, 34% said that they had written between one and 10 cheques in the past year, and about 5% had written more than 10. Again, the incidence of cheque use was related to age: just one of the under 20s had written more than 10 cheques.

Where young people still received financial support from parents (especially more than £200 a month), they were even less likely to write cheques: 61% of this group had not written a single cheque in the last 12 months.

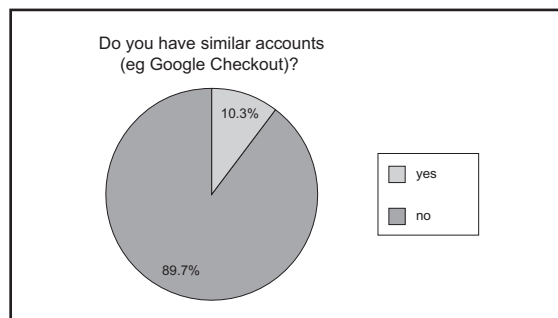
In general (and to no surprise), cheques were seen as old-fashioned:

- “I only visit my bank branch when I need to cash a cheque, and even that seems archaic.” (Keyur Patel)

Almost everyone uses PayPal!



Do you have a PayPal account? Equally unsurprisingly, given its ubiquity as a means of making payments online, nearly 66% did have a PayPal account.



Do you have similar accounts (eg Google Checkout)? Next, we asked about other online payment systems. While PayPal has deep penetration among young people, fewer – just 10% – had other types of account. In most cases, this was Google’s equivalent, Google Checkout.

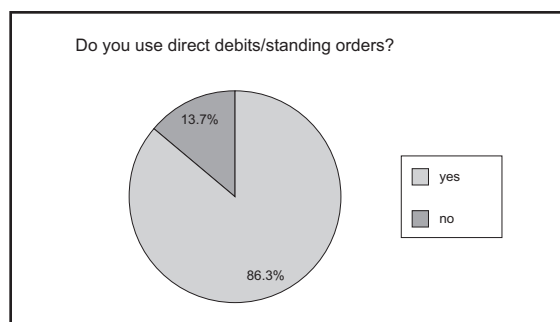
More broadly, we had touched upon the idea of brand awareness at the original round-table, when panellists had been asked if they would ever

consider banking with Facebook or Google (if such a possibility existed). The essays and the survey confirm that trust is clearly an issue with online payments. On the one hand:

- “I do think that banking with Google, or something similarly respected, which young people are familiar with, use often and trust, would be appealing to many youngsters.” (Ella Beryn)

However:

- “I do not trust doing transactions over the internet. I have only ever bought one product off eBay and that was it.” (Taj Mudhar)



Do you use direct debits/standing orders? A full 86% said they had at least one set up – although that figure dropped to 60% in the younger age group (under-20).

And what did the essayists think?

Eva Galigali

“Five years ago, I would have told you that finance is a great tool if one is educated and responsible enough to use it. Today, I feel torn. My beliefs about personal finance haven’t changed but the macroeconomic factors beyond my control sometimes frighten me.

“I was born and grew up in Greece, a member-state of the European Union which later became a member of the eurozone. Generally, I would say that I got my financial education from my parents more than from school. I remember we had some personal finance classes, but, seriously, who pays attention to such matters at the age of 13?

“I think the way the family environment deals with finance is much more influential than any formal education. After all, it’s a reflection of one’s personality and depends on personal experiences. In my case, my parents were always very cautious about budgeting, loan repayments and bills – my dad still calls me to check I have taken care of my banking and tax issues – so I believe I inherited a responsible attitude towards finance.

“The way financial services are provided today makes our lives easier in many ways. We don’t need to bother each month with paying bills one by one: a direct payment order to your bank can save a lot of hassle. However, I prefer not to pay large amounts of money online. It probably sounds old-fashioned and not tech-savvy at all, but I still prefer to pay my rent by visiting the branch. I have the ongoing fear that someone will hack my account and all I have will instantly disappear – not that I have that much, but better safe than sorry! On the other hand, I quite enjoy being able to buy anything from around the world on Amazon with my Greek debit card or to withdraw money from any ATM worldwide.

“Technology and financial integration make travelling and international transactions much easier as it means we don’t have to worry about travellers’ cheques or hiding our cash. Debit or credit cards and online transfers are just a few of the options we have.

“The problem is that it is easy to get carried away with everything being so simple and not to realise that we are talking real money. In my opinion, as long as someone doesn’t physically see money disappearing from their wallet, they are usually more prone to impulse-purchasing. I personally find that clicking a button to buy something online has a kind of entertainment in itself, like a video game, though of course reality will hit you as soon as the bill arrives in your mailbox. I try not to overspend, so even though I have a debit and a credit card I do not use them very often. Every time I get excited about something I find online I don’t buy it instantly but let a couple days pass in order to cool off and see if I really need it or could afford it.

“Luckily, I have zero personal debt. This is something I owe to my parents since they bore the cost of my education both for my bachelor and part of my master’s degrees.

“One thing that surprised me in the UK is that most people have to take on student loans from a very young age. Back home, universities are public so there are no fees for bachelor programmes, even though you still have to pay for accommodation and living expenses. A year after I started working I was able to save a decent proportion of my salary each month since I was living rent-free with my parents – yes, this is the typical Mediterranean family! Yet, my salary was low and I had to budget carefully as I used my savings to pay for my postgraduate studies in London.

“Once I get a permanent job, I would like to be able to save around 30% each month for a rainy day and also for a business plan I have in mind. As for a pension, I don’t have one right now. Back home, I had to pay a certain, sizeable, amount of money to the public pension fund: these are obligatory in Greece and their fees differ according to the profession and are due each year.

“And this is what scares me. Until a couple of years ago, the money you had in your bank and your future pension was considered to be safe. Most people didn’t understand about monetary policy, and many didn’t even bother to find out more because it was so far away from their personal reality.

“My experiences over the last few years with the sovereign debt crisis, particularly in Greece, have completely shattered any concept of financial security I ever had. Suddenly, I don’t know if my few savings will still be in my account tomorrow morning because God knows what could have happened overnight. The country could go bankrupt, there could be a bank run or the national currency could be redenominated, which would affect exchange rates, and then there is the issue of pensions. The value of the state bonds bought by pension funds has halved and because of the country’s absolute fiscal mess, current pensioners have had their pensions reduced three times already by the government.

“For me, this is the problem. Personal finance can become a state issue in certain circumstances. I do not excuse people who have financial problems because of overspending, bad planning or reckless economic decisions. But there are also instances where an individual has followed a strict plan all his life and suddenly sees everything turned upside down due to external circumstances. Here, macro-economic finance and personal finance are interchangeable. This realisation was painful for me. Even so, I try to remain positive about the future and avoid thoughts like hiding the money under my bed in a storage chest or any other ‘personal banking’ ideas.”

Calum Fuller

“The world of finance has always been anathema to me. It is awash with bewildering terms such as ‘quantitative easing’, ‘sub-prime’ and – most confusingly – ‘toxic debt’ and ‘good debt’. As far as I’ve ever been concerned, debt is debt. It’s always bad.

“In addition to the plethora of financial jargon, the markets appear to be dictated by a bizarre herd mentality, with traders as likely to have a baseless sense of confidence in the good times as they are to run screaming in bad times such as these. No-one seems to think for themselves, which I find exasperating.

“As a result, I have always approached the issue of money – even my own personal finances – with trepidation and caution. Fortunately, I have always been surrounded by people more sensible than myself; particularly my parents and extended family, whose guidance has seen me into this quite satisfying situation.

“At 21, I am in a far stronger position than most of my peers. I am in my first (temporary) job as a sub-editor earning £20k pro-rata after graduating in journalism from the University of Lincoln in September. It’s a decent starting wage although, predictably, much of it is eaten up by living expenses and the cost of living in London. After tax, National Insurance, rent and transport costs, I’m left with around £700 per month to live on.

“However, thanks to the wonderful benevolence of my maternal grandfather and support of my parents, I do have some £16,000 sitting in a bond accruing interest, albeit slowly. In addition, I have another £3,500 in a separate account, also growing steadily. It is these two accounts – coupled with the fact that I only have one student loan – that have given me such a good financial footing.

“Most recent graduates have two student loans outstanding; one tuition fee loan which went straight to their institution, and a second maintenance loan, which they received every term to put towards their living costs. I only took out the tuition fee loan, which means I owe around £10k instead of £20k. Clearly that’s a substantial sum, but I’m lucky to be far better off than the next generation of graduates, who will have as much as £27k to pay back, plus the maintenance loan.

“I had initially intended to pay off my debt immediately after leaving university, thereby allowing myself to step into the real world debt-free and with a proactive attitude to money and finance.

“However, I was discouraged from doing this when I found out that the interest I receive on my savings outweighs the modest interest rate I am charged on my student loan, rendering paying it off pointless. Instead, I prefer to keep my capital intact in case I need it for another purpose, such as a deposit for a house.

“This, as far as I’m concerned, defies all logic and epitomises the confusing nature of money. People should be encouraged to meet their debts as soon as they can. Weirdly, I have been encouraged to keep my debt and keep (the majority of) my money.

“Part of the answer lies in education. At school, we are taught precious little to prepare us for the prospect of handling money. I certainly can’t recall being taught about the financial system in any mathematics or citizenship lessons. I did receive a small number of lessons, aged 14, on the tax system, but I certainly wasn’t taught economics or personal finance. We only need to observe the behaviour of the standard university student the day their loans arrive to see how damaging the lack of education is.

“Most students would rather spend their money on drinks and parties (and who can blame them?) than exercise financial prudence. The problem is that financial illiteracy and circumstance often conspire to bite only when it’s too late.

“It’s a rather glaring oversight on the part of this country’s education system that students have little or no concept of the value of money or how to manage it. It is imperative that this is addressed as soon as possible, otherwise this vicious cycle will not be broken.

“For me, the critical thing is to address the uncertainty I currently face; to find a more permanent job, a more permanent residence and to develop my career.”

8. Financial knowledge

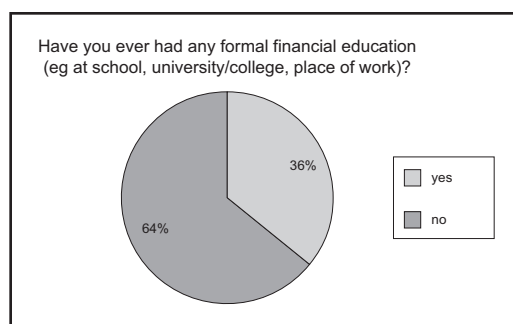
Financial illiteracy?

Financial literacy among young people has long been a cause for concern, and our report underscores some of those worries. We found a serious lack of understanding of financial services products – particularly of complex ones such as pensions. Martin Lewis, of MoneySavingExpert (among many others), has been campaigning to make financial education part of the national curriculum. But that does not help those who have already left formal education – many of whom are clearly interested in learning more.

The survey findings

We asked three questions:

- Have you ever had any formal financial education (eg at school, university/college, place of work)?
- Do you feel you are well enough informed to make the kinds of decisions about personal finance that are required of you?
- What word best represents your attitude to personal finance?



Have you ever had any formal financial education (eg at school, university/college, place of work)?

The majority of our respondents – over 64% – had not had any financial education. This was true for 68% of the under-20s and 64% of over-20s, while 70% of women claimed not to have received any, compared with 58% of men. Those educated in the state sector had

had a bit more help than those who had been educated privately (66% and 61% respectively).

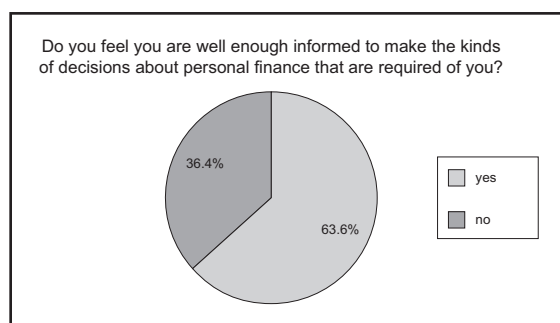
However, some of our essayists weren't quite sure what counted as financial education:

- “I might have received specialised financial education at school – but I don't remember it, which is the point.” (Keyur Patel)

- “I certainly can’t recall being taught about the financial system in any mathematics or citizenship lessons.” (Calum Fuller)

In so far as respondents had received any financial education, it seems to have taken several forms. In particular, some respondents had done modules as part of an economics degree, though they wondered about the usefulness of that:

- “Where appropriate to the course, the economics department has taught me how to calculate rates such as APR. However, these lessons on financial mathematics were ... all theory and little application.” (Adam Savinson)
- “The whole [university] course [Personal Financial Planning] was full of jargon and complex terms and acronyms.” (Taj Mudhar)



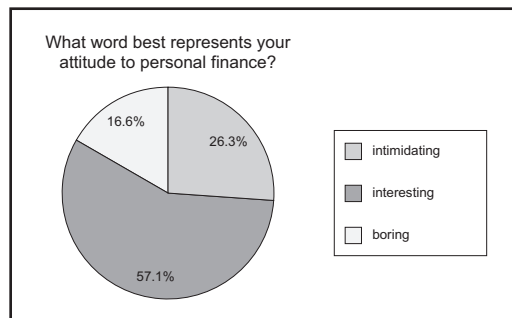
Do you feel you are well enough informed to make the kinds of decisions about personal finance that are required of you? Despite the answers given to the previous question, about 64% of respondents felt they did know enough to make the kinds of decisions required of them. Broken down further,

58% of under-20s and 64% of the 20-25 age group thought they were capable of making those decisions – as did 73% of males and 55% of females, 67% of graduates compared with 63% of non-graduates, and 66% of those who were state-educated versus 60% of those from private schools.

However, some of the essay responses showed a great deal of uncertainty:

- “How financially literate am I? Not very. If I’m being honest, the phrase ‘financial services’ means very little to me.” (David Stansbury)
- “I know very little about financial services. I know they exist, but my knowledge beyond that becomes very sketchy.” (Daniel Watkins)
- “It would be nice to know how financial services work, because I clearly don’t but I’m not sure how much I need to know about them right now. At the moment, I think I’m okay to just continue muddling on with the basic bits I understand.” (Daniel Watkins)

What about financial education?



What word best represents your attitude to personal finance?

We offered three choices – “intimidating”, “interesting” and “boring”. Among survey respondents, 57% said they found personal finance “interesting”, while 26% felt it was “intimidating”; 17% thought it was “boring”.

That was something of a surprise.

It seems that the general lack of formal education in financial matters hadn’t put our young people off. Most of them understood the need to engage with financial services – if only to be in control of one’s life:

- “I feel that financial education becomes very important especially at the point where you are expected to start making important financial decisions.” (Cecilia Makinde)
- “A grasp of percentages, overdrafts and other financial mechanisms is surely a must for everyone, especially as student debts are only likely to increase.” (Anonymous)
- “With increased financial literacy levels among consumers, there would be an increased confidence in using financial services and managing money; there would be less of the fear which surrounds money and personal finance.” (Ella Berny)

However, there were also sceptics:

- “While I see the need for financial education for kids growing up, I struggle to believe that those types of classes would be taken seriously by children and young adults.” (Ed Kaznowski)

Of course, there is also the question of how financial education would be taught (especially at university): whether it should be a subject in its own right, whether it should fall under Personal Social and Health Education (PSHE) or economics and business courses, or be worked into maths lessons (as in Scotland). This was the subject of a recent report by the All-Party Parliamentary Group on young people and financial education.¹¹

It is clear that more formal teaching of financial literacy is needed. However, it is by no means clear how that teaching should be delivered.

11. All Party Parliamentary Group on Financial Education for Young People. “Financial Education and the Curriculum”. December, 2011

And what did the essayists think?

Ella Berny

"I don't have a pension fund. I have recently graduated; I'm doing a paid internship right now and I'm hoping to start a Masters degree next September. Therefore, I don't feel it is necessary for me to save into a pension fund at the moment. All the same, it is important to me to have a good retirement income, and although it might be a very long way off, I would like to start saving for it soon.

"Because of compound interest it's more beneficial to save little amounts regularly from when you start work than to save a large amount later on. My parents and grandparents have always saved money for me and I have been part of this process from an early age.

"I was always encouraged to put birthday money or any extra money I had into the account, and I would do this independently. When I turned 18, I gained access to the money and opened an ISA – I could transfer £5,100 into the ISA each tax year. It has recently matured so I am currently moving it across to a different ISA account before I decide what to do with it.

"I consider this money to be for a future investment rather than something I can dip into if I'm ever low on cash. I think I will use it either to fund further study or put it towards a deposit for a house or a flat (which are my greatest financial worries).

"I also have an eSavings account which I put money into on a regular basis to save for short-term goals or to simply put aside spare money. I find this form of account really useful – it is easy to see where all your money is and switch it between accounts online. The eSavings account helps me stick to a budget: if I kept all my money in my current account, I would be more likely to spend it. But if I do ever over-spend I can easily transfer some money from the savings account back over to keep in balance.

"I rarely go into my branch, except to deposit money into my ISA or change accounts etc. I mainly bank over the internet. I don't think I would use a mobile phone for banking transactions – I'm not very savvy with the latest mobile technology and so wouldn't trust myself, but also because of the security issue.

"I know that any system for mobile banking transactions would probably be made very secure, but something about the mobility of them and how easily they are lost would put me off. I also find it a bit unnecessary: I don't need to make any bank transactions that immediately or regularly, and feel internet services more than adequately suit my needs.

"I currently have student debt of just over £20,000, with interest currently accrued at the RPI. Although I do feel that reducing debt is important generally, I don't actually feel that reducing this particular debt is that important to me at the moment. The repayments won't impact me that greatly as I don't have to pay the loan back until I am earning more than £15,000 and it will be deducted from my wages.

"But I think this is part of the problem of an emerging 'debt culture'. Graduates enter post-uni life with huge debts that they are distanced from: they never had to see their tuition fees and so it is difficult to relate to this money and realise actually how much is being spent.

"Often, I think student debt doesn't seem real as it isn't something students have to physically deal with. So we enter adult life with the detrimental attitude that debt is the norm and doesn't hugely impact our daily existence.

"We were asked how we'd respond to a Google bank or a Facebook bank – in other words, what were our attitudes to new banks with familiar names. The general consensus was that these would not be a popular option. I'm cynical about any banking service offered by a social networking site for obvious reasons associated with its information-sharing qualities and subsequent security issues.

"But I do think that banking with Google, or something similarly respected, well-known and trusted would be appealing to many youngsters. I think that many feel disengaged from financial services, don't understand them and therefore don't really trust them. If banks want to appeal to the younger generation, they need to communicate clearly and succinctly without complicated jargon, but without being patronising.

"I do think that a large part of the problem is a lack of financial education. I didn't have any at school, college or university, and learned what I know through my parents and personal experience. Without good financial role models, there are few ways to learn the important life skills of managing money well and interacting with financial services.

"There is inevitably a knowledge gap between those who work in financial services and their customers, and lots needs to be done to address this. Improving financial literacy among consumers would increase confidence in financial services and managing money; there would be less of the fear which surrounds money and personal finance.

"But the financial services industry also needs to look at new ways of engaging and communicating with the financially illiterate."

Anonymous

“My views on saving tend to flit between wanting to save for reasons of both prudence and because I want to smooth my lifetime consumption. My active saving tends to be done on an ad hoc basis; I have a pension but I don’t spend much time thinking about it. It exists. That’s all.

“I prefer to diversify my savings into different ISAs but get frustrated by the hassle of the changing products. While the results of saving clearly have many merits, it goes without saying that there is always something more interesting I can spend my money on.

“I am generally a big fan of technology because it reduces the amount of time I have to spend actually dealing with a branch – that’s a good thing. The ability to access financial services at all times and in different ways means that, when I am being disorganised, I can pay a bill at the 11th hour without any problems. And so I visit a bank branch as often as a zebra strays near a pride of lions: as little as possible and only ever as a last resort.

“If security is assured, then mobile banking might be something I would use. Nevertheless, security is a topic that I am frequently vocally passionate about. I want to believe that there does not have to be a trade-off between convenience and security. But it seems that some banks would have us believe that there is: for me, internet banking is no longer truly mobile as I have to carry an oversized keyring around with me.

“I would definitely be in favour of financial education at schools because the potential benefits to society could be huge. A grasp of percentages, overdrafts and other financial mechanisms is surely a must for everyone, especially as student debts are only likely to increase. This is not to say that it is necessarily a disaster that student debt is increasing. In fact, I am in favour of people internalising the costs of education when they receive the majority of the benefits.

“Notwithstanding this, all debt was not created equal. I am at ease with my student debt burden and the (RPI-linked) interest it charges. I am less keen on other forms of debt and I go out of my way to make sure I use credit facilities when they help with my personal liquidity but always pay off debts before interest charges become an issue.

“I imagine that I am a very unprofitable customer and am actually slightly surprised I continue to be granted the generous credit lines that I currently have access to.”

9. Conclusions and recommendations

I hope the report speaks for itself. However, there are several points which emerge from both the survey and the essays which are worth emphasising – some of which are far from self-evident:

- First, young people still see a need for physical face-to-face interaction with their bank. As a result, it may be wrong to write off the branch.
- Second, not all young people are that comfortable with mobile banking. Security and integrity of banking systems are a big concern.
- Third, slightly to our surprise, it is evident that there is a good deal of confusion about how the student loan system works. Since these loans are most people's introduction to the world of debt, this is important.
- Fourth, the complexity of some banks' offerings seems to be a significant concern. A simpler, easier-to-understand approach would encourage customer retention.
- Fifth, gender differences are especially significant when it comes to savings in general and pensions in particular. More should be done to 'demystify' savings for young women.
- Sixth, there is clearly great confusion over pensions – even among those who are already contributing. Respondents knew little about different types of pension – or even whether they could transfer their pension pots. More (and easier to understand) information is badly needed in this area.
- Finally, there is obviously a big need for more financial education – be it in school, college or on the job.

Let's hope that the banks, the pension providers and the government are listening.



Sophie Robson has been working at the CSFI for three years, after graduating with a degree in English Literature from Newcastle University in 2008.

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