

**The London Institute
of Banking & Finance**

Young Persons' Money Index 2017

Examining the financial capability of
young people in the UK

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About the research

The Young Persons' Money Index was carried out online by research agency PCP among 2,018 people aged between 15-18, in full-time education and based in the United Kingdom. It was completed in Summer 2017 and the sample was selected by PCP from their research panel. The questions that form the basis of the report were developed by The London Institute of Banking & Finance in consultation with PCP. The sample is fully representative and has been weighted in terms of age, gender, regional make-up and education.

Foreword

The last 12 months have seen considerable upheaval in the world of politics and finance, with current events having an undeniable impact on the world economy. It is in this uncertain and volatile age that millions of young people are leaving compulsory education and entering the world of work or university – and finding themselves responsible for handling their own money for the first time.

Never has financial capability been more important. Understanding financial concepts, planning ahead and ensuring long-term security are absolutely essential for young people. Throughout recent years, awareness has grown among the financial services industry, government and the education sector around this need and the vital role that education can play in helping young people remain financially secure. The benefits of this are clear – fewer in unmanageable debt, more with the ability to spend, save and budget sensibly and a level of knowledge among the next generation of consumers that can lead to greater engagement with financial products.

Work continues to ensure that all young people across the country have access to financial education and efforts by organisations across the sector are to be applauded. But there is still a long way to go to ensure that financial education is widely accessible and delivered effectively and consistently.

The following report provides a snapshot of the delivery and effectiveness of financial education in the UK and the financial attitudes and behaviours of young people. The findings, compared where appropriate with longitudinal data from the previous iterations of the Young Persons' Money Index, show that financial education is having a demonstrable and positive impact. More young people receive lessons on how to manage their money in school than ever before and therefore have more knowledge about financial matters and are beginning to demonstrate positive behaviours.

However, the delivery of the subject is disparate, with gender, geographic location and social group appearing to have an impact on young people's likelihood of receiving financial education. There appears to be a disconnect between young people's perceptions of their own ability to manage money and the reality of the skills they need. They have a propensity to overestimate their likely future earnings and underestimate demands on their money in adulthood and they lack knowledge around key financial products and concepts.

Financial education can really make a difference in these areas and placing the subject firmly on the public policy agenda is an achievement that is not to be underestimated. The new challenge for the sector is to ensure that the issue continues to receive the attention it deserves and that the delivery of financial education is honed, refined and targeted to the needs of young people growing up in an increasingly uncertain world.



A handwritten signature in black ink, appearing to read 'Alison Pask'.

Alison Pask

Managing Director, Financial Capability & Community Outreach
The London Institute of Banking & Finance

Key Findings

44%

of respondents say they are getting financial education in school

More young people are receiving financial education in school and college but delivery remains inconsistent and there is still work to be done to ensure that access to financial education becomes even more widespread.

- The number of young people reporting that they receive financial education in school has increased by 5% on the 2016 survey and exactly half of 15-16 year olds now have access to it.
- However, 54% of all the young people surveyed still say they do not receive financial education.
- In line with the introduction of personal finance to the curriculum, Maths lessons are now the most popular way that 15 and 16 year olds say they receive financial education but access through Citizenship lessons has not increased compared to the previous year.
- Of all the 15-16 year olds surveyed, only 20% said these were the main channels through which they were getting financial education.

The majority of young people believe they have enough knowledge to handle their money independently and are engaging with appropriate financial products and services. However, they also have money worries and are increasingly at risk of becoming victims of financial crime or fraud.

- 55% of the young people surveyed believe they have enough knowledge to handle their money independently but 62% say they worry about money.
- A majority of young people have independently engaged in some kind of financial transaction and/or hold appropriate financial products and services.
- Significant numbers of young people are being exposed to financial crime or being offered inappropriate products and services.

Young people have high financial expectations and seem to underestimate the financial burden of some of the major life events they may face in the future. Their actual knowledge and understanding of financial concepts and products is variable and inconsistent.

- Young people's expectations of their annual future earnings are considerably higher than actual national averages (by around £17,000 - £20,000).
- They also tend to be overly optimistic in other areas such as the level of debt they're likely to be in when they leave university and the amount of time they'll need to save for a deposit on a house.
- Young people's knowledge about financial products and concepts varies widely.

62%

say they worry about money

Gender, locale and social grade have an impact on young people's access to financial education, confidence, expectations and capability.

- Females are less likely to access financial education in school or college. They're more likely to worry about money and feel less confident in their knowledge.
- Those in the North and Midlands are less likely to benefit from financial education and perform worse in various areas of financial knowledge.
- Those in less privileged social groups are also less likely to receive financial education and perform worse in terms of their financial knowledge.

63%

of those who say they receive financial education in school or college feel that they have the knowledge to manage their own money

Financial education is having a considerable and positive impact on some key areas of young people's financial confidence and capability. However, in some areas the knowledge of those receiving financial education about financial products and services is lacking and the effectiveness of the main delivery channels varies considerably.

- 63% of those who say they receive financial education in school or college feel that they have the knowledge to manage their own money compared to 49% who do not receive financial education.
- This group are also far more likely to save £10 or more per month.
- Those who said they receive financial education underperformed considerably in some of the capability questions.
- Maths and Economics appear to provide young people with financial education most frequently and for more time than Citizenship or PHSE.

1. Sources of knowledge and understanding

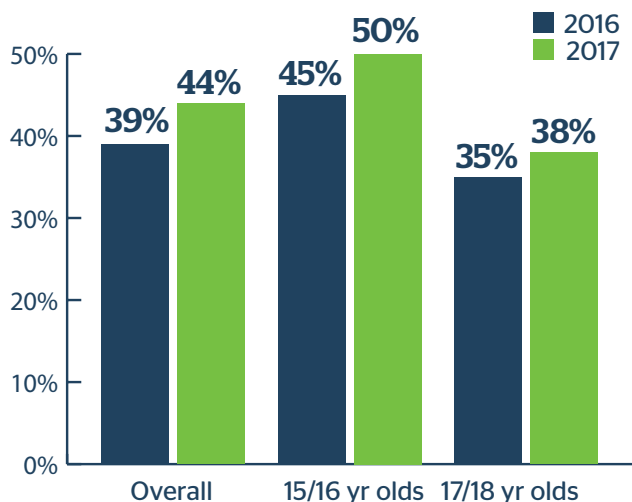
Financial education in schools and colleges

A key objective of the research was to find out the extent to which young people are currently learning about personal finance in school and, in particular, to track whether access to such education has improved over the last 12 months.

More young people than last year say they receive financial education, with 44% confirming that they do so. This represents an increase of 5% from 2016 and is the highest figure recorded in the Young Persons' Money Index thus far. However, this does mean the majority of young people still said that they were not learning about money or personal finance in school.

This increase is consistent for 15/16 year old respondents, for whom the study of personal finance is included in the curriculum, and for 17/18 year old respondents. 50% of 15/16 year olds now report they receive financial education, compared to 45% in 2016, and 38% of 17/18 year olds, compared to 35% in 2016.

Fig 1. Do you currently learn about money or personal finance at school/college?

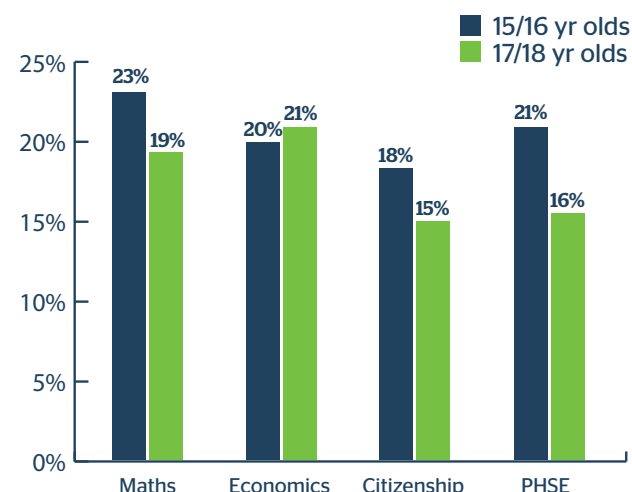


44%
of young people
now say they receive
financial education

How financial education is delivered

For those 15/16 year olds who said they get financial education in school, Maths has now become the most common delivery channel – increasing slightly to 23% from 22% in 2016 and overtaking Economics, which has fallen to 20% from 24%. The proportion of 15/16 year olds who said they get financial education mainly through PSHE has remained the same at 21% while Citizenship has fallen back very slightly from 19% to 18%.

Fig 2. What best describes the way you learn about personal finance?



Maths
is now the most
common delivery
channel

The sources of financial education for 17/18 year olds are of course more influenced by subject choice (which is reflected in the number who say they get any kind of financial education at this age). The most common delivery channel cited is Economics at 21%, though again this has dropped considerably from the 2016 research when it stood at 26%. Access through Maths has also increased for this age group from 15% to 19%, followed by PHSE and Citizenship at 16% and 15% respectively.

At all ages, the research highlights a modest increase in respondents saying they get financial education in school from other sources. 2% more 15/16 year olds say they get it through dedicated personal finance qualifications and 2% more 17/18 year olds cite a teacher with an interest in the subject as their primary source.

76%

said they would like to learn more about money

The quantity and frequency of financial education delivery also appears to be on the increase. 29% of students now say that they get an hour or more a week, compared to 22% in 2016, and 44% said they had a lesson involving personal finance in the previous month, compared to 36% in 2016. The proportion of students who said they had never had a lesson involving personal finance, not had one for more than a year or couldn't remember has dropped from 45% to 40%.

The research also sought to understand the appetite for personal finance education. 76% of all respondents said they would like to learn more about money – consisting of 79% of 15/16 year olds and 73% of 17/18 year olds.

Fig 3. How many hours a week would you say that you learn about money or personal finance in school or college?

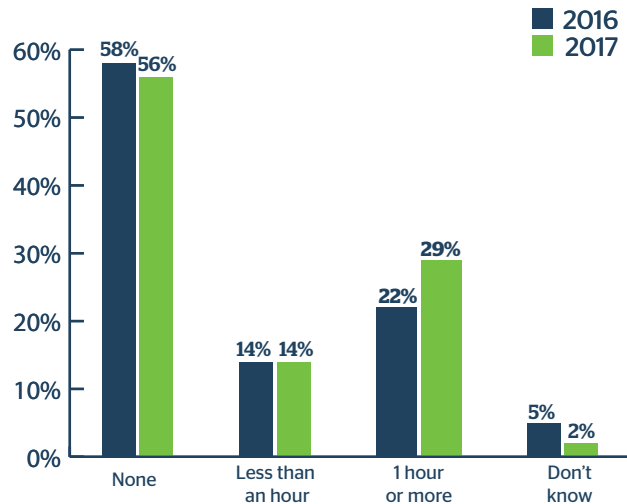
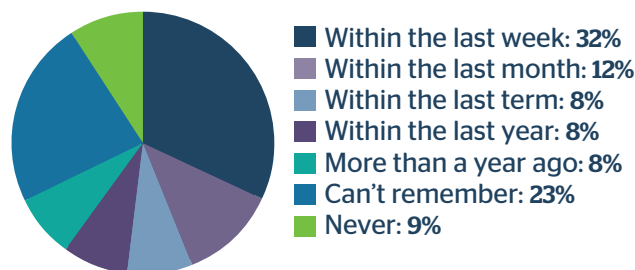


Fig 4. When, if at all, did you last have a lesson which directly discussed money or personal finance?



75%

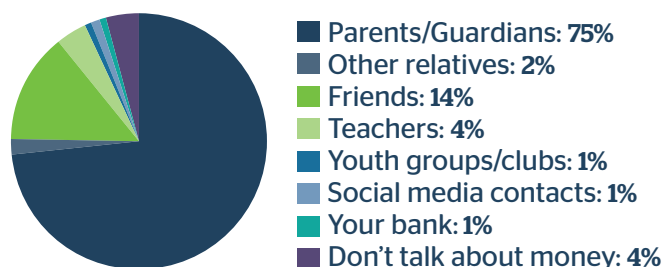
talk to their parents the most about money

Informal sources of financial understanding

There are, of course, many other ways that young people can learn and receive guidance about money and personal finance. The vital importance of parental influence on young people's financial knowledge, understanding and attitudes to money is highly significant. 79% cite their parents as their primary source of financial education. Of those respondents who gave a different answer, 8% said they get most of their financial understanding from school and a further 8% say their knowledge is gained from TV shows, the internet or social media.

The reliance on parents is confirmed by responses to a further question asking young people who they 'talk to the most about money'. 75% said they talk most to their parents about money while 14% said they talk most to their friends. 4% of respondents said they talk most to a teacher, a slight increase of 2% on the previous year, and 4% said they do not talk about money at all

Fig 5. Who do you most talk with about money?



Analysis

A key objective of The Financial Capability Strategy for the UK¹ is that all young people should receive the quality financial education they need by 2025. **The findings of the 2017 Young Persons' Money Index show that meaningful progress is being made in providing such education in schools and colleges.**

The number of respondents saying they get lessons about money or personal finance, the number of hours of financial education being received per week and the frequency of lessons on the subject have all increased compared to the findings of the 2016 report.

This undoubtedly indicates a positive step forward in ensuring the widespread delivery of financial education. The inclusion of the subject in the national curriculum for 15/16 year olds through Maths has almost certainly had a positive impact – it is now the most common way for this age group to receive financial education. Delivery through Citizenship has not grown at all however and, importantly, of all the 15-16 year olds surveyed, only 20% in total said they were getting financial education through these channels.

Of course many schools, such as academies, are not required to follow the national curriculum and this is likely to be a factor in how widespread the use of Maths and Citizenship is a channel for financial education. The growth in the use of Maths relative to Citizenship also poses some interesting questions. Is financial education less likely to be delivered through Citizenship because the subject is rarely examined and is not included in league tables or measured by Ofsted? Or could it be the case that schools and teachers feel that Maths is the most appropriate channel – perpetuating the idea that “money is all about numbers”? Are Maths teachers more likely to be comfortable with the subject matter than their colleagues in other areas?

The inclusion of personal finance in the curriculum also does not account for the increase in 17/18 year olds receiving financial education at sixth form level. Previous editions of this research have highlighted the low levels of financial education received by those in this age group, so **it is encouraging to see that a greater proportion have access to such lessons at a vital time in their personal development** when they are about to embark on their careers or enter higher education.

Across all age groups, Economics and PHSE remain very popular delivery channels and there has also been a modest rise in the use of other mediums (such as dedicated personal finance qualifications). This may point to a general increase in awareness of the subject's importance and a greater desire generally on behalf of schools and colleges to equip young people with these important life skills, which again is a very positive step.

However, these results do indicate that the subject continues to be delivered in a disparate and inconsistent manner. At this stage, some financial education is undoubtedly better than none and the improvements observed should be celebrated. However, questions remain about whether the most effective delivery methods are being used and whether a more consistent approach across the education system would be beneficial in ensuring the best long term outcomes.

The fact that the vast majority of young people cite their parents as their primary source of financial knowledge is certainly not surprising and is consistent with previous studies. This highlights the vital role that parents have to play in developing their children's money management skills and the importance of fostering high levels of financial capability across all life stages, as set out by the Financial Capability Strategy.

Some parents themselves may not feel confident in managing money and therefore will be poorly placed to help their children develop positive behaviours in turn. **The delivery of financial education in schools should be supplemented by a home environment that encourages good money habits** and offers young people the chance to put skills and knowledge gained in school into practice

These survey results clearly show that improvements have been made in the delivery of financial education to young people. This upwards trend is encouraging and shows that efforts currently being made across the sector are achieving results. However, the delivery of financial education is still spread across disparate channels, with little evidence on the effectiveness of these various delivery methods. Additional research is needed to allow teachers, policy makers and providers of financial education to hone in on the best way to teach young people about personal finance, as well as to ensure that this gradual upwards trend continues and accelerates in line with the recommendations set out by the All Party Parliamentary Group on Financial Education.

only
20%
of all young people
aged 15/16 said
they were receiving
financial education
through Citizenship
or Maths

*“Questions remain
about whether
the most effective
delivery methods
are being used
and whether a
more consistent
approach would be
beneficial.”*

*“These survey
results clearly show
that improvements
have been made
in the delivery of
financial education
to young people.”*

Talking Point: Economics and Financial Education

The delivery of financial education through Economics lessons is worthy of note. The subject matter within an Economics course may be perceived to be close to financial education. However, further research is needed to assess whether these lessons are being used to deliver financial education rather than education about finance and financial systems generally – and whether students understand this distinction. Providing clarity to students around when they're being given the knowledge and skills to handle their own money may be beneficial in ensuring financial education is as effective as possible and that confusion is minimised.

¹ <https://www.fincap.org.uk/children-and-young-people>

2. Confidence & Behaviours

55%

feel they have enough knowledge to manage their money independently

Young people's confidence when it comes to handling their finances underpins many of their attitudes and behaviours and can be a useful indicator of capability levels. Given that lifelong behaviours are often set at a young age, understanding how young people interact with money can also provide a useful insight into how the next generation of consumers might engage with financial services in the future.

Confidence and engagement

The majority of all survey respondents (55%) said that they thought they had enough knowledge to manage their finances, with those in the older age bracket being slightly more likely to say they were confident in their knowledge (57%) compared to those in the younger group (53%). Encouragingly, confidence has improved slightly compared to 2016 when 50% of all respondents said they were confident in their knowledge.

However, a clear majority of young people now say they worry about money - a total of 62% of all respondents. Worry appears to increase significantly with age with 70% of 17/18 year olds saying they worry and 55% of 15/16 year olds. Around one in ten (11%) young people, report worrying about money on a weekly basis.

Fig 6. Do you currently feel you have enough financial knowledge to be able to manage your own money?

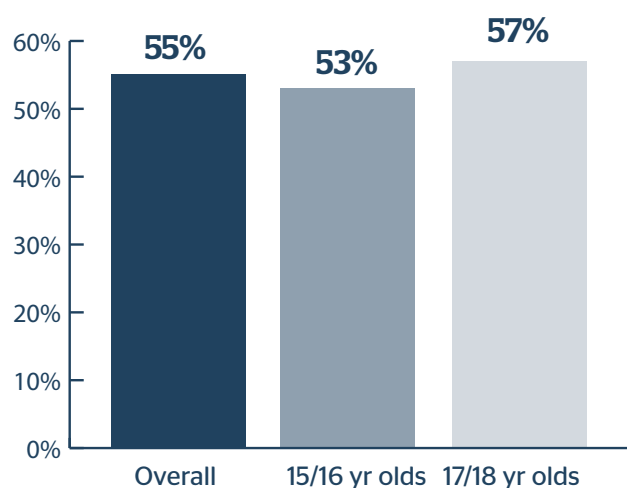
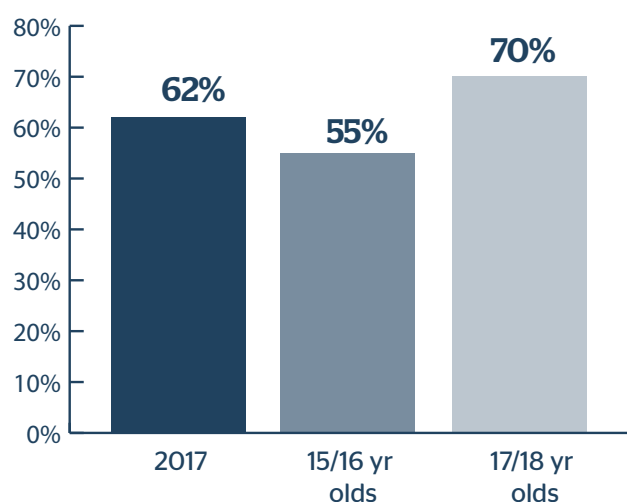


Fig 7. Do you ever worry about money or your personal finances?



62%

of young people worry about money

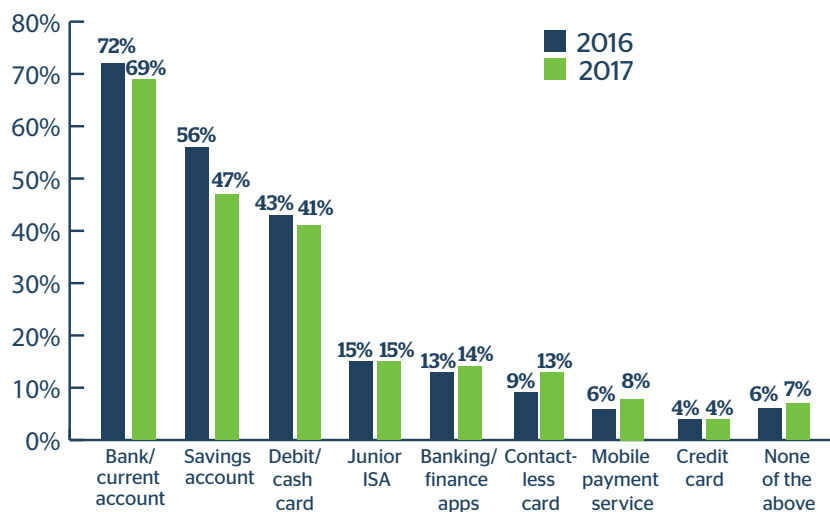
More

young people are using digital channels to manage their money

Engagement with financial products appears to be holding steady in most areas, though some slight decreases have been noted in comparison with 2016's figures. The majority of respondents said that they have at least one financial product – 69% have a current account and 47% have a savings account in 2017, compared to 2016's figures of 72% and 56% respectively. Again ownership of these products increases with age. A slight increase in the use of newer payment technology has also occurred, with 4% more using contactless technology compared to the 2016 survey and 2% more using a mobile payment service. **However, some misunderstanding of financial products still persists with 3% of 15/16 year olds saying that they have a credit card, for example.**

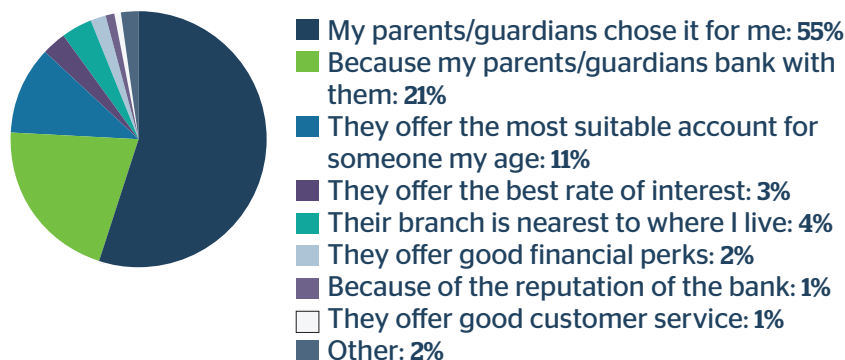
When it comes to selecting a bank account, the vast majority of young people appear to be accessing accounts appropriate to their needs. Only 6% of respondents say they don't have any kind of account – consisting of 10% of 15/16 year olds and 3% of 17/18 year olds.

Fig 8. Which of the following financial products/services do you currently own and /or use?



only
6%
of respondents say they don't have any kind of account

Fig 9. Why did you choose your main bank account?

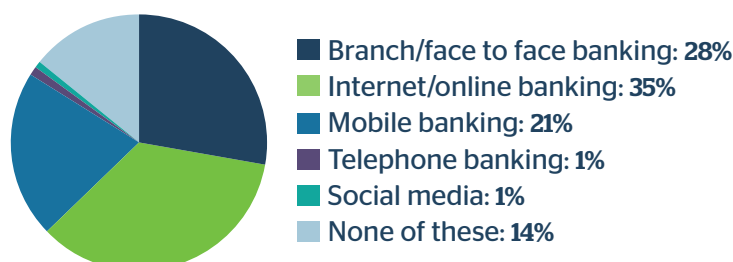


Parental input is the main influencing factor behind choosing a bank account, though this is less of a factor in older age groups. Less than a quarter of respondents (23%) said that the main factor behind their choice of account was anything other than parental influence. 11% picked their bank account because they believed the bank in question offered an account most suitable for them, and 4% picked it because of the rate of interest. Only 4% cited branch location as a factor and notably, the reputation of a bank and/or its marketing/advertising activity seems to have little to no effect on young people's choices. Only 1% said they chose their account because of the reputation or brand strength of the bank and 1% said it was because the bank offered good customer service. No respondents cited advertising as their reason for picking their bank account.

“Parental input is the main influencing factor behind choosing a bank account.”

When asked how they interact with their bank, a combined 56% said they use internet or mobile banking compared to 52% in 2016, broken down as 45% of 15/16 year olds and 65% of 17/18 year olds. The use of branches has fallen from 30% in 2016 to 28% in 2017 and, consistent with the previous year, only a very small number said they used telephone banking (1%). 14% of respondents said they have no interaction with their bank whatsoever compared to 17% in 2016.

Fig 10. Which of the following banking services, if any do you use most regularly?



Actions, Planning and Interactions

A majority of young people surveyed reported taking one or more independent financial actions – defined here as an action actively showing engagement with their personal finances or with a financial product or service. This includes downloading a banking app, paying a bill using banking services, exchanging currency or setting up a direct debit. 64% of respondents reported engaging in a basic financial action of this nature. This increases with age, standing at 55% of 15/16 year olds and 77% of 17/18 year olds.

Increases have also been seen in areas relating to financial decision making and planning, such as comparing different financial products to get the best deal and planning a budget. Many of these actions have become more widespread – 16% of respondents in 2017 said they'd compared financial products, compared to 6% last year. Likewise, 11% said they'd planned a budget in 2017 compared to 6% in 2016. However, a decrease of 16% occurred in those saying they'd saved for an expensive item (from 67% to 51%).

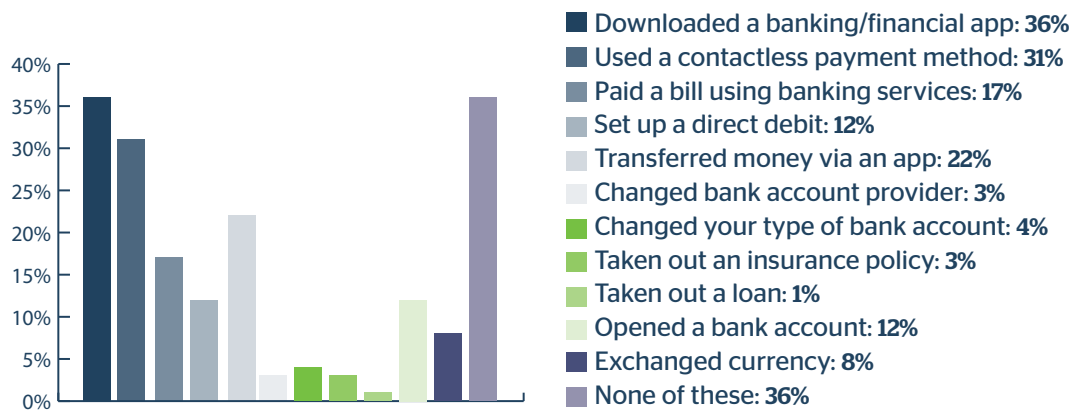
The survey also tracked proportions of young people engaging in financial interactions, be they informal (lending to or borrowing from friends or family) or formal (signing a contract, receiving a wage slip). A significant number of young people say they have engaged in informal transactions – 36% say they have lent someone money and a further 36% say they have borrowed money from a friend. Despite this, only 2% describe having been in debt.

A small number also say they have used a pawnbroker or pay day lender (2% of both 15/16 year olds and 17/18 year olds). Likewise, a total of 12% of 17/18 year olds say they have gambled – an increase from 4% of 15/16 year olds.

12%

of 17/18 year olds say they have gambled

Fig 11. Which of the following, if any, have you ever done independently?



12%

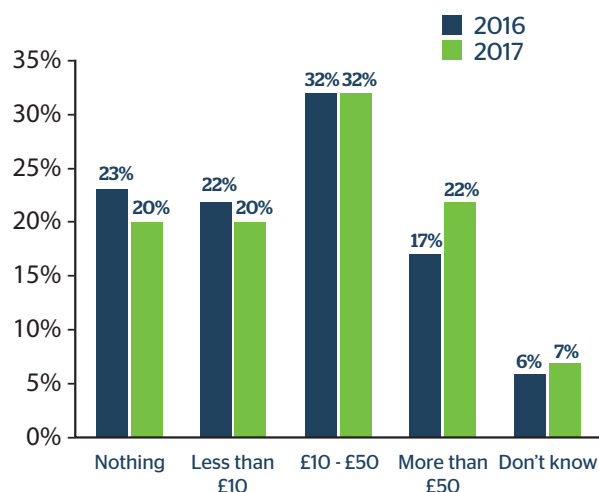
of young people have received a phishing email

A significant proportion of young people also say they have been exposed to some kind of fraud, financial crime or been offered an inappropriate financial product or service. 12% say they have received a phishing email, 2% said they had a card cloned, 5% had been asked for their PIN number and 2% had had a card stolen. These figures are a small but notable increase from 2016. Furthermore, 18% say they have been contacted about PPI, 9% say they have been offered a loan and 11% have been offered a credit card. For 15/16 year olds, 6% say they have been offered a loan and 8% a credit card.

Fig 12. Has any of the following ever happened to you?



Fig 13. How much do you save per month?



The research also asked respondents whether they saved money each month and if so to approximate how much. Of all respondents a fifth (20%) said they did not save anything at all. Though this is a significant percentage, it is a slight improvement from the 23% who said they weren't saving in 2016. The number of those who said they save £10 or more per month increased from 48% to 54%.

54%
of young people
save £10 or more
per month

Analysis

Overall, young people display a reasonable amount of confidence in their money management skills and show significant levels of engagement with financial services and products. **Compared to the results of the 2016 study there are a number of areas where confidence, positive engagement and behaviours appears to have increased.**

The 5% rise in those who say they feel they have enough knowledge to manage their money matches the increase in those who say they are accessing personal finance education in school, which might point to a degree of correlation between the two. In any case, increased levels of confidence are clearly to be celebrated, provided of course that this confidence is not misplaced.

The number of those that say they worry about money is notable, though understandable, particularly for older students who may be considering the cost of going to university or are about to enter the world of work. Is it therefore a 'good kind of worry' born of increased awareness of the need for good money management – or could the responses be reflective of less positive factors such as financial hardship or peer pressure?

Increasing engagement with financial services on behalf of young people is certainly a positive sign – 'learning by doing' is an essential aspect of financial capability and fundamental to ensuring long term confidence. Interacting with financial services demystifies products, systems and concepts and enables young people to handle their money effectively and independently.

The extent of parents' influence on young people's choice of bank account is clearly significant and not inherently negative. Having parental guidance on what, for many, is their first ever experience with a bank is to be expected, but parents' role here will perhaps be most effective if they actively engage with and include their children in discussions around picking their bank account. Taking the decision entirely out of a young person's hands removes that element of engagement, which is itself an opportunity to lay the foundations for proactive interaction with financial services in the future.

The growth of internet and mobile banking usage is significant. Increasing usage of technology and the emphasis on digital channel shift for banks means that, for young people opening their first bank account, internet/mobile banking is the natural way to manage their money. This may go some way to explaining the decline in usage of face-to-face banking services among this group. The convenience and simplicity of mobile and internet banking is an opportunity for young people to manage their money effectively. **Financial education in schools should reflect this shift to online banking and prepare students to use these services.**

Young people are making decisions and taking actions on their personal finances in reasonable proportions. A comparatively small number have created a budget, potentially indicating a lack of short term financial planning and day to day money management. Though young people admittedly often have fewer outgoings and lower income (few have jobs, pay regular bills or make rent/mortgage payments, for example) getting into the habit of working to a budget is good practice for adult life, when these regular expenses become a reality. This should be an area where personal financial education can provide the tools and knowledge that young people need.

Only 2% of young people say they've been in debt, a figure at odds with the proportion of respondents who said they had borrowed money from friends or family. This indicates that young people do not consider this informal borrowing to be "debt". It may be beneficial to impress on them that even informal borrowing is a form of debt (if the money they borrow is expected to be repaid,

“increased levels of confidence are clearly to be celebrated, provided of course that this confidence is not misplaced.”

“learning by doing is an essential aspect of financial capability.”

“getting into the habit of working to a budget is good practice for adult life”

“ the need to educate and inform young people about the types and risks of financial crime and how they can be mitigated is clearly becoming more and more essential.”

rather than it being gifted to them) in order to help create a responsible attitude to credit in adulthood.

A majority of young people (54%) report saving more than £10 per month. Establishing healthy savings behaviour from a young age lays the foundation for later life, along with the increased financial security that comes with good saving. A decrease of 16% in those saying they'd saved for an expensive item may appear to be at odds with this. However, it may be the case that young people are saving generally, rather than with an aim to buy a specific and expensive item. If this is the case, it indicates an awareness of the importance of saving and is certainly a positive sign.

Talking Point: Exposure to financial crime and inappropriate products

The level of exposure respondents have had to financial crime is troubling, particularly as these figures represent an increase from 2016 (albeit a small one). More research is needed to establish whether these figures are higher for young people than they are among the general population or whether this represents a general increase in financial crime across the board. Either way, the need to educate and inform young people about the types and risks of financial crime and how they can be mitigated is clearly becoming more and more essential.

12% of 17/18 year olds also report having gambled. This is a significant increase from the younger age group, potentially indicating that 18 year olds are likely to quickly take up opportunities to gamble formally, such as through a bookmaker or by using online gambling. 12% is a significant proportion of young people in this age group and, while the monetary cost of their gambling is not captured by this survey, the prevalence of gambling may be a cause for concern.

Notable proportions (11%) of young people have also been offered a credit card - a troubling finding. It is an offence to offer credit to someone under the age of 18. 18% of all respondents also say they have been contacted about PPI claims – a practice which is again inappropriate for the reason previously stated.

3. Expectations and Capability

Assessing the financial expectations of young people may provide important insight towards ensuring that financial education is being delivered as effectively as possible. By helping young people form realistic expectations of their earnings and outgoings in their adult life, they can begin to build healthy money habits in line with their financial ambitions and prepare for the demands of handling their money independently.

For the first time, the 2017 edition of the Young Persons' Money Index also asked some specific questions designed to assess young people's knowledge about financial products and concepts. The objective was to test whether the levels of confidence that young people have, as highlighted earlier in this report, are based on a genuine understanding.

Expectations and earnings

The young people who participated in the research appear to have a reasonable understanding of salary levels in the UK but also have very high expectations of their own earning potential.

According to the ONS Annual Survey of Hours and Earnings 2016² the average annual salary of a full-time employee in the UK is £31,116 for males and £28,449 for females. When asked what they thought these average salaries were, the survey respondents were fairly accurate with an average response of £28,136 for males and £24,879 for females. However when asked to estimate what their own annual salary would be at the age of 30 the average across all respondents was £48,184.37. A quarter of all respondents said they didn't know or hadn't thought about their future potential earning.

Respondents were also asked to estimate the level of debt they would likely be in when they leave university (should they go). The average student debt according to The Sutton Trust stands at £44,000³ but the average estimate provided across all respondents was considerably less at £28,838.23. 17/18 year olds provided a closer estimate than 15/16 year olds at £30,264. However, this still misses the mark by around £14,000.

Young people also underestimate the amount they need to save for a deposit on a house as a first time buyer – but not by much. The average deposit needed is around £28,552 according to The Money Charity⁴. The average estimate provided by all young people surveyed was £26,014.10. Though this is a reasonably close estimate, a large number of young people (25% in total) said they didn't know the size of a deposit required to buy a house. Similarly, young people expect that it will take them just 12.5 years to save for a deposit on a house – in reality, as revealed by The Money Charity, the expected amount of time it would take someone on an average salary to save for a deposit is 33 years.

25%
say they don't know how long it will take to save for a deposit on a house

2 <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2016provisionalresults>

3 <https://www.suttontrust.com/newsarchive/english-students-face-highest-graduate-debts-exceeding-ivy-league-average/>

4 <http://themoneycharity.org.uk/30-years-save-deposit/>

Knowledge of financial products and concepts

We asked young people a number of questions designed to assess their knowledge and capability when dealing with products and issues, such as interest rates. For example, respondents were asked to identify the correct interest rate quoted on a savings account. Only 26% were able to identify AER as the correct rate, with some 66% incorrectly believing that it was denoted by APR. Slightly more of the younger respondents answered this correctly, 27% of 15/16 year olds compared to 26% of 17/18 year olds.

Higher proportions of young people were able to correctly identify that the interest rate on a student loan was denoted by APR, with a total of 65% of young people answering this question correctly.

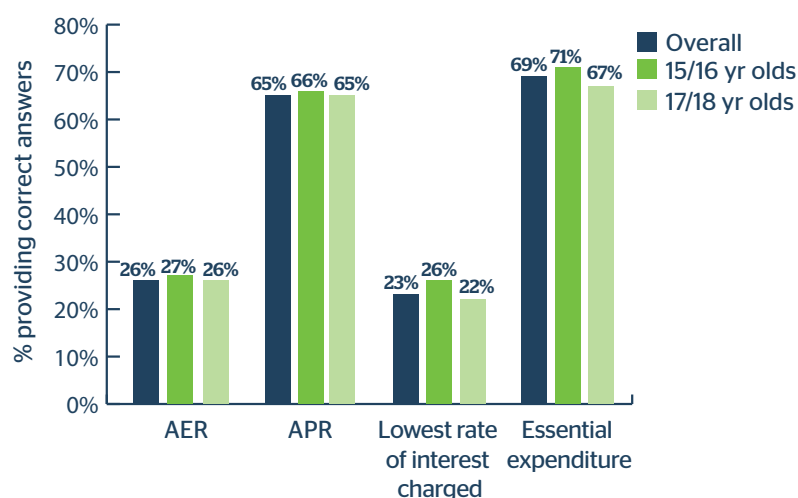
Around a quarter of young people (23%) were able to identify that mortgages would charge the lowest rate of interest when presented with a list including credit cards, mortgages, store cards and student loans. 57% believe that a student loan charges the lowest rate of interest.

However, high proportions of young people are able to identify essential monthly expenditures. When asked to pick from a list of expenditures including cinema tickets, petrol, a smartphone and mortgage repayments, 69% identified a mortgage repayment as mandatory. Again, more 15/16 year olds (71%) answered this question correctly than 17/18 year olds (67%).

When asked to estimate the total amount of state pension paid to eligible individuals in a single week, young people tended to overestimate again – by an average of £20 to be specific. The average estimate was £139.50; state pension is paid at a rate of £119.30 per week.

The majority of young people are able to correctly estimate when they'll have to pay back their student loans. 62% said that this was when they earned £21,000 or more per year. 12% underestimated this amount, while 26% overestimated. 60% of 15/16 year olds answered this question correctly, compared to 65% of 17/18 year olds.

Fig 14. Assessing young people's financial capability



26%

correctly identified AER as the interest rate on a savings account

69%

identified a mortgage repayment as mandatory

Analysis

There are considerable variations in young people's expectations and financial knowledge.

They seem to have a reasonable grasp of current salaries and their expectations are broadly accurate in areas such as the earnings threshold for repaying student loans and the amount needed for an average house deposit. However, even allowing for inflation, they tend to have high expectations about their own potential future earnings and they underestimate both the level of debt that they would carry after leaving university and how long it might take them to save for a house deposit. While ambition and aspiration in young people is something to be encouraged, the results of the research do seem to indicate that many young people expect to earn more and have less debt than is likely to be the case.

This may be cause for concern, depending on how this attitude is translated into adulthood. **If young people carry forward unrealistic expectations on future earnings it may prevent them from engaging with appropriate long term financial planning**, limiting their ability to achieve their financial goals (such as saving for a deposit on a house) and increasing the risk of them living beyond their means.

Young people's knowledge is mixed. It does not fully correlate with the levels of confidence identified earlier in this report (where 55% said they felt they had enough knowledge to manage their finances effectively) or with the percentage of respondents who said they get lessons about personal finance in school. In some areas, such as identifying what constitutes essential monthly expenditure, the majority were able to answer correctly. **However, their knowledge of financial products is lacking and their knowledge of technical concepts, such as different kinds of interest, could be improved.**

“many young people expect to earn more and have less debt than is likely to be the case.”

In many areas,

15/16 year olds display more financial knowledge than 17/18 year olds

Knowledge of financial concepts and commitments does seem to be influenced by their proximity to young people's personal situation for example, while respondents were likely to drastically underestimate the level of debt that they'd leave university with, they demonstrated good understanding of the interest rate to be paid on student loans and of the earnings threshold beyond which student debt must be paid back. Subsequently it could be argued that the knowledge young people do have is appropriate for their life stage. The counter to this notion is that opportunities to develop financial capability and skills will be scant upon leaving school, resulting in young people having little chance of being prepared for the adult financial decisions soon to be upon them.

Talking Point: Why are younger students more capable?

Across all the questions asked above it is interesting to note that those in the younger age group were more likely to provide correct answers/estimates. 15/16 year olds performed better than 17/18 year olds in 6 of the 11 financial knowledge questions asked – perhaps as a result of a higher proportion of this age group having access to financial education in school, though this area would require more detailed research before such a conclusion could be reached definitively.

“Significant differences are seen between males and females in many of the areas covered by the research.”

4. Influencing Factors on Confidence, Behaviours, Expectations and Capability

The report thus far has provided an overview of the research findings for young people generally and compares and contrasts them for different age groups.

While previous editions of the Index have looked at the impact of gender, access to financial education and locale, the 2017 Index also sought to identify the social background of the respondents using NRS social grades. This section of the report explores whether there is any evidence to suggest that demographic factors have an influence on young people's, confidence, behaviours, capability and access to financial education.

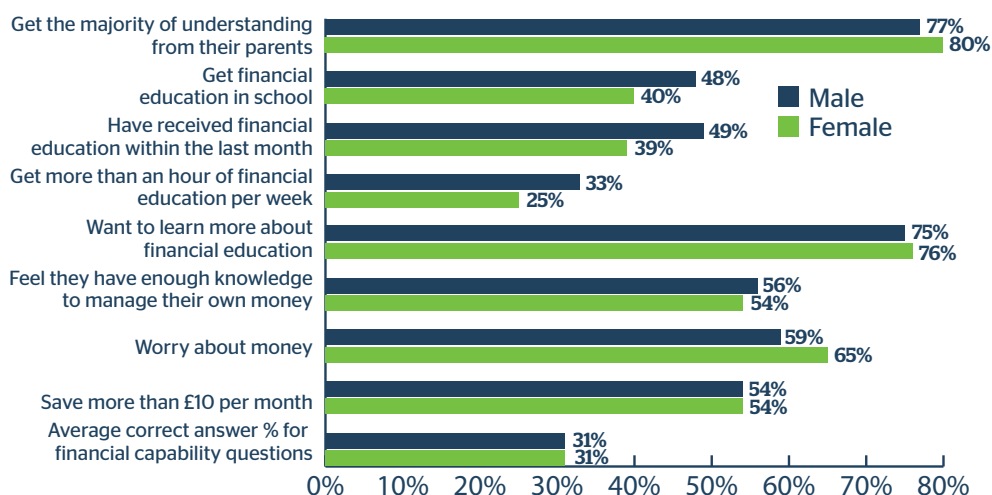
Gender

Significant differences are seen between males and females in many of the areas covered by the research. For example:

- 40% of females say they get financial education in school, compared to 48% of males
- 39% said they had received financial education within the last month, compared to 49% of males
- 25% of females say they have had more than an hour of financial education per week, compared to 33% of males.

Females are also less confident than males (54% say they feel they have the knowledge to manage their own money, compared to 56% of males) and are more likely to worry about money (65% say they do so versus 59% of males). Savings rates, however, are the same across both genders, with 54% of each group saying they save more than £10 per month and the average correct answer percentage for the knowledge-based questions detailed in section three was the same for both genders.

Fig 15. Gender differences



Geographic location

Scotland, Wales and Northern Ireland are the areas of the UK which see the highest proportion of young people receiving financial education, with 48% of respondents reporting having financial education across the three devolved nations. Likewise, more young people said they had received financial education in the last month (48%) and had more than an hour of financial education per week (32%) than in any other area.

Respondents in the Midlands were least likely to report receiving financial education (41%) and those who did receive it did so less frequently (41% said they had done so within the last month) and received it for less time (28% said they had more than an hour per week).

Confidence, engagement and positive behaviours also seem to be most prevalent in the devolved nations. 58% of respondents in Scotland, Wales and Northern Ireland say they feel they have enough knowledge to manage their own money, 61% say they worry about money (the joint lowest rate, alongside the Midlands) and 57% say they save more than £10 per month.

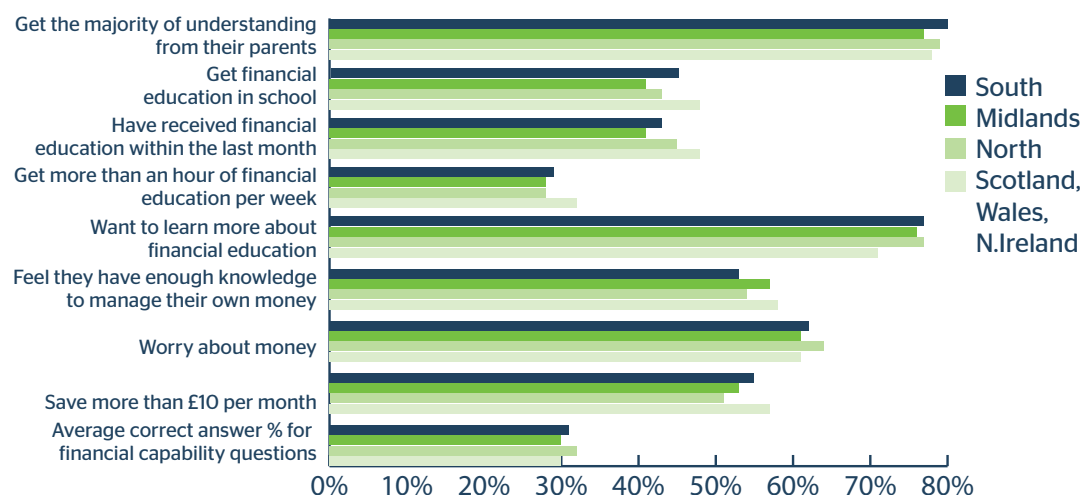
Conversely, the lowest rates in these areas are seen in the North of England. 64% say they worry about money and only 51% save more than £10 per month. Furthermore, 54% say they believe they have enough knowledge to manage their money independently, 1% more than in the Midlands, which ranks lowest in this area.

The South of England scores comparatively well and closely to Scotland, Wales and Northern Ireland in many areas. 45% say they receive financial education, 43% have do so within the last month and 29% get more than an hour per week. 62% worry about money and 55% save more than £10 per month. The South has the joint highest rate of young people who say they want to learn more about personal finance, at 77%. This figure is equalled in the North, where demonstrable capability seems to be at its lowest.

“Scotland, Wales and Northern Ireland are the areas of the UK which see the highest proportion of young people receive financial education.”

64%
of those in the North of England say they worry about money

Fig 16. Geographic differences



Social group

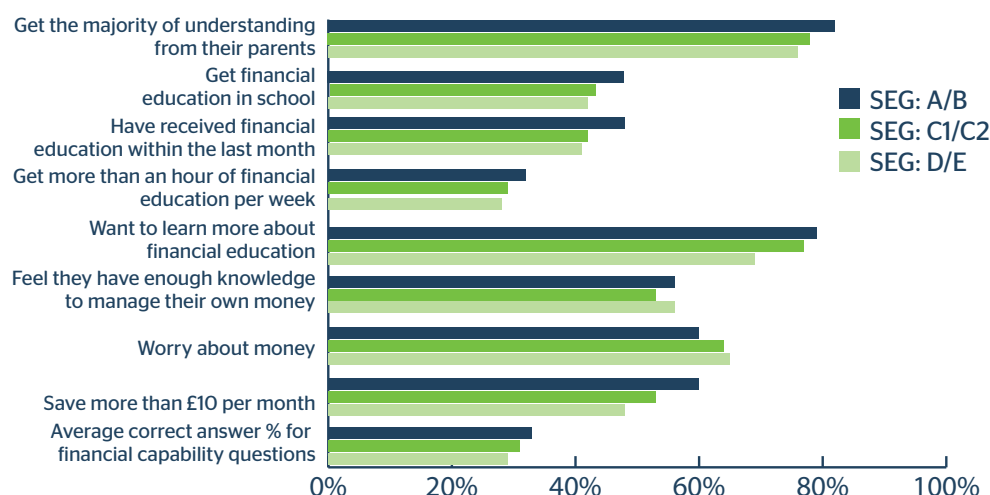
Data was also collected from young people across NRS social groups. NRS social group was defined by the young people's parents' occupation, rated at AB for higher and intermediate managerial professions, C1 for clerical and junior professions, C2 for skilled manual occupations and DE for semi and unskilled occupations and for those who are unemployed.

Those in social grade AB are more likely to receive financial education (48% say they do so), receive financial education in greater quantities (32% spend more than an hour per week) and on a more frequent basis (48% say within the last month). More respondents in this group expressed a desire to learn more about financial education than any other (79%). ABs are also less likely to worry about money (60% say they do so) and more likely to save at least £10 a month (60% do so). The average correct answer percentage for knowledge-based questions was also 33%, the highest of any group, correlating with their propensity to receive financial education.

Those in lower social groups (DE) present the opposite picture. 42% say they receive financial education, 41% of those who do say they've had it in the last month and only 28% get more than an hour per week. Desire to learn more about personal finance is also lowest in this group (69%). Inclination to worry about money is highest at 65% and savings rates are lowest, only 48% say they save more than £10 per month. Interestingly, respondents in this group do feel they have enough knowledge to manage their own money, ranking joint highest with group AB at a rate of 56%. Group DE were also least likely to get the majority of their understanding from their parents – 76% do so compared to 82% of group AB.

“Those in social grade AB are more likely to receive financial education, receive financial education in greater quantities and on a more frequent basis”

Fig 17. NRS social grade differences



“Females are less likely to have access to regular financial education.”

“there remains considerable opportunity for improvement across the whole of the UK.”

“finding ways to reach young people from less advantaged backgrounds needs to be a priority.”

63%
of those who receive financial education feel they have enough knowledge to manage their own money

Analysis

A young person's, gender, location and NRS social grade does appear to have an impact on their access to financial education, their confidence and their behaviours.

Females are less likely to have access to regular financial education, are less confident about the subject and worry more and it is perhaps telling that slightly more females than males expressed a wish to learn more about the subject.

Financial education seems to be most widespread in Scotland, Wales and Northern Ireland.

The Midlands sees the lowest rates of financial education, whereas the North sees young people with the lowest confidence and engagement.

Young people in the North seem to show at least some awareness of this and consequently express a desire to learn more about financial education in high numbers. Conversely, the low delivery rates seen in the Midlands, coupled with respondents in this region expressing comparatively high confidence in their money management abilities may indicate that young people here are most at risk of falling behind their peers. They demonstrate low rates of savings behaviour, comparatively poor knowledge (only 30% on average answered the knowledge-based questions correctly) and low levels of confidence. Overall and despite improving rates of confidence, engagement and reception of financial education, there remains considerable opportunity for improvement across the whole of the UK.

The NRS social grading system is obviously a fairly blunt means of classification but there does appear to be a link between this demographic and levels of financial confidence, behaviours and capability. The indication that young people classed as DE have less confidence with money and exhibit fewer positive behaviours seems predictable but should be cause for concern. **Young people from this background have just as much, if not more, need for the appropriate skills and knowledge to manage their money effectively.** It could be that those in this group are harder to engage and/or receive less support in this area from their parents, but the root causes of this disparity require further investigation. Certainly it would appear to be the case that finding ways to reach young people from less advantaged backgrounds needs to be a priority for those tasked with improving financial capability.

5. Impact and effectiveness of Financial Education

This final section of the report seeks to examine whether, and the extent to which, financial education is having a positive impact on young people. It also looks across the main channels through which young people say they receive financial education and compares how effective they are both in delivering the subject and making a difference to young people's knowledge and confidence.

Impact of Financial Education

Considerably more of those who say they receive financial education in school or college feel that they have the knowledge to manage their own money – 63% compared to 49% who do not – and also want to continue to learn more about it in greater numbers (78% of those who do say they want more financial education, compared to 74% of those that don't). This group are also far more likely to save £10 or more per month (62% compared to 48% of those who don't). They are also more likely to worry about money (which again could be a 'good worry') with 66% reporting doing so compared to 61% of those who don't receive it.

The impact of financial education on knowledge about products and concepts is not so clear, however. In the four questions focussed on financial knowledge those who said they receive financial education provided only slightly more correct answers in two of the questions and underperformed considerably in the others. For example:

- 27% answered the question on AER correctly, compared to 26% of those not receiving financial education
- 63% answered the question on APR correctly, compared to 68% of those not receiving financial education
- 25% answered the question on product interest rates correctly, compared to 24% of those not receiving financial education
- 64% answered the question on mandatory expenditure correctly, compared to 74% of those not receiving financial education

When considering the four lessons through which most young people say they receive financial education (Maths, PHSE, Economics and Citizenship) notable differences are seen. For example, those that receive financial education mainly through Economics are most likely to receive financial education most frequently and for more time – 90% have had a lesson within the last month and 86% have more than one hour of financial education per week. Those who receive financial education through Economics are also most likely to save more than £10 per month (67% report doing so).

Conversely, those who receive financial education through PHSE receive it less frequently and for less time (66% have had a lesson in the last month and only 46% say they have more than one hour per week). Only 56% of PHSE students save more than £10 per month – the lowest proportion of any of the four lessons investigated here. PHSE students are the least likely to worry about money – 56% report doing so but also are the least confident in their knowledge, 54% feel they have the knowledge to manage their own money, closely followed by Citizenship students on 55%.

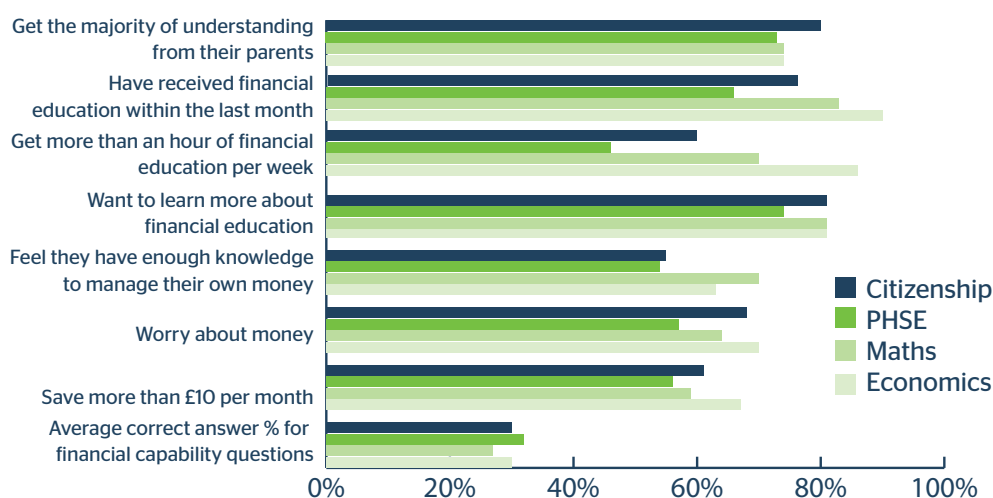
Those receiving financial education through PHSE are the least likely to want to learn more about financial education – 74% wish to do so, whereas 81% of respondents from each other group expressed a desire to learn more. However, PHSE students were marginally more likely to answer the knowledge-based questions correctly – the average correct answer percentage was 32% for this group.

Maths, the most common way of delivering financial education, sits between these two subjects in many regards. Students report receiving financial education frequently (83% had it in the last week and 70% had it for more than an hour). Maths students are also confident in their knowledge, 70% say they think they have enough to manage their own money effectively. Furthermore, 64% say they worry about money. However, Maths students are the least likely to be able to answer the knowledge-based questions correctly – the average correct response rate was 27%, the lowest of any subject area.

Citizenship lessons mirror the profile of PHSE lessons. Considerably more respondents in this category said they had received financial education in the last month (76%, compared to 66% for PHSE) and 60% say they get more than one hour per week. A notable proportion (61%) say they save more than £10 per month, the second highest behind Economics, which rates at 67%.

Effectiveness of delivery channels

Fig 18. Differences between delivery channels



“When considering the four lessons through which most young people say they receive financial education notable differences are seen.”

PHSE
students were the most likely to answer questions on financial products correctly

“Maths students are the least likely to be able to answer the knowledge-based questions correctly.”

Analysis

Financial education does appear to have a positive impact, particularly around confidence, engagement and behaviours however its affect on knowledge levels is not so clear. It is obviously hard to draw definitive conclusions from such a narrow range, but this does raise questions about what is actually being delivered and whether **there remain misconceptions on behalf of young people and teachers about what financial education really is.**

The findings may indicate that financial education in schools should place an increased focus on not just building numeracy skills, but also on good behaviour and general money management. These practical skills are a key part of influencing positive behaviours in adulthood.

The findings clearly show that different delivery channels are effective to varying degrees and in different ways. Maths and Economics, for example, appear effective at delivering financial education frequently and for good lengths of time and also seem to pass on a degree of confidence to their students. Citizenship lags a little behind these two subjects as far as frequency, quantity and building confidence is concerned while PHSE seems the least effective across all these areas, it does appear to be marginally the most effective as far as improving actual capability & practical knowledge is concerned.

It may be the case that the effectiveness of financial education is impacted by the context of the subject in which it is delivered. Though Maths and Economics students may be being given the practical numeracy skills to handle their money or an understanding of the monetary system (both important aspects of financial education), they may not be exposed to more personal financial concepts such as interest, financial products and positive money management. Could it be the case that because PHSE is generally a more conceptually orientated subject and one more focused on life skills, it is more effective at developing a practical understanding of money?

6. Conclusions

Overall, the findings of this report paint a positive picture regarding the delivery of financial education. **More young people than ever before are receiving these lessons and financial education is being delivered more frequently and for more time than has been previously seen.** Though the majority of all young people surveyed say they do not receive financial education, half of those in compulsory education now say they've received financial education, a notable improvement from 2016.

This undoubtedly points to increasing levels of awareness around the importance of financial education, as well as appreciation of the benefits that the subject can deliver. Overall, the recommendations of the APPG on Financial Education and the subsequent efforts by organisations from across the sector can be considered an early success.

The challenges facing the sector now centre on continuing this trend and ensuring that financial education is being delivered as widely, appropriately and effectively as possible. The disparities identified around gender, social group and geographic location are among the key challenges for the future of financial education. Efforts should be targeted towards those in regions such as the Midlands and North, towards females and to those in lower social groups to ensure parity, while ensuring that the positive trends seen in other demographic groups continue.

Inconsistencies in the delivery of financial education should also be addressed. As these findings show, certain lessons (Maths and Economics) are the primary delivery channels for financial education. The context of these lessons has been show to effectively build confidence and numerical skills that underpin financial capability. However, practical skills around money management and the specifics of financial concepts and knowledge do not seem to be covered as effectively and may be better suited to lessons such as PHSE and Citizenship – areas that lag considerably behind the other lessons mentioned.

As has been mentioned, parents have a crucial role to play in building their children's financial capability. Young people continue to look to their parents as their primary source of financial education. Outside of the classroom, young adults have the chance to put their knowledge into practice and parents' can help facilitate accessible interactions with financial products, services and positive behaviours. However, low levels of financial capability are a persistent issue across all life stages and parents may also benefit from a degree of financial education to ensure they feel equipped to help their children in this regard. **The role of parents and how best to engage them should be considered by the wider sector.**

“delivery channels are effective to varying degrees and in different ways.”

“half of those in compulsory education now say they've received financial education.”

“Inconsistencies in the delivery of financial education should also be addressed.”

“parents have a crucial role to play”

Financial crime has been shown to be a growing issue and these findings show that more young people than ever before are being exposed to fraud and criminal activity. **Financial education has a role to play in helping young people safeguard themselves against this activity.** Ensuring that young people have the knowledge and confidence to combat fraudsters is key in tackling this criminal activity in the long term.

Banks and financial service providers also have an integral role in ensuring the effectiveness of financial education. Providing products that are appropriate for young customers and ensuring that information on these products is readily available makes them more accessible for customers. Young people's growing engagement with digital channels should particularly be borne in mind here. Financial service institutions can and should aim to partner with organisations that deliver financial education in order to ensure a cohesive approach across the sector, as well as working to ensure that young people are not offered inappropriate products and have access to the services they need at an appropriate time.

Habits formed in these early years can go on to define an individual's attitudes towards money for a lifetime. Therefore, the ultimate aim of financial education should be to instill essential skills and knowledge that translate into positive behaviours in adult life. With this in mind, it may be the case that the full benefits of financial education are not seen for a number of years. **At this stage, the sector has an opportunity to capitalise on these early successes** and use this momentum to deliver a nationwide financial education program that is effective, relevant and makes a lasting difference to the lives of millions of young people.

“Banks and financial service providers also have an integral role in ensuring the effectiveness of financial education.”

Case study: The impact of dedicated personal finance education

Alongside the research project which underpins the rest of this report, a further piece of research was conducted among students receiving dedicated personal finance courses from The London Institute of Banking & Finance. The results of this ad-hoc survey are presented here for further analysis. It should be noted that the results from this survey are not equally distributed across age groups – results have been gathered from both 14 and 19 year olds, with those aged 14-16 (and in full time education) making up 47% of the results and those aged 17-19 making up 53%. While results should not be directly compared with the findings previously presented in this report, they do demonstrate the benefits to young people of focused and comprehensive financial education.

Respondents were most likely to say that they got the majority of their understanding of personal finance from their teacher – a total of 48%. This eclipses the percentage which say their understanding comes from their parents or family, which stands at 28%. A further 10% say their understanding is self-learned.

Respondents said they received financial education for more time and more frequently than those in the wider report. More than a third (36%) said they received financial education for four hours or more per week. Additionally, 43% said they had received financial education on the same day as they took the survey. Only 7% say they spent less than an hour per week studying personal finance.

73% of young people said they wanted to learn more about money in school, and 74% said that they felt they had enough financial knowledge to be able to manage their own money. Fewer young people said they worried about money than in the wider survey, with 23% saying they didn't worry at all and 33% saying they worried on a less than monthly basis.

Respondents were also likely to say they had access to a bank account, with 74% saying they had a bank account and 51% saying they had a savings account. Only 5% said they had access to no common financial product. Parents were still shown to be a major factor in young people picking their current account provider, with 68% saying their parents had picked it for them, or they'd picked it because their parents banked with them.

Respondents also demonstrated higher level of financial capability and knowledge. 55% correctly identified AER as the interest rate relevant to a savings account and 54% identified APR as the interest rate payable on a student loan. 44% also correctly identified a student loan as the product charging the lowest rate of interest from a list also including credit cards and store cards. 80% also correctly said that they would need to earn £21,000 or more before they started paying back their student loan.

For more information on our financial capability programmes please visit libf.ac.uk/fc

“Respondents were more likely to say they received financial education for more time and more frequently.”



About The London Institute of Banking & Finance

We exist for a very simple reason – to advance banking and finance by providing outstanding education and thinking, tailored to the needs of business, individuals, and society.

Our focus is on lifelong learning; equipping individuals with the knowledge, skills and qualifications to achieve what they want throughout their career and life. We provide a balance of experience, insight and thought leadership into today's financial world, delivered by industry leaders, thinkers and members of our community.

And because we've been at the heart of the sector since 1879, we create connections and build partnerships between people and business that make banking and finance more accessible and understood, and enhance social inclusion through better financial capability.

We are The London Institute of Banking & Finance, **lifelong partners for financial education.**

Contact details

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