Speech by Amanda Bowe,
Head of Consumer Affairs, Strategy & Evaluation, CFEB

Financial Services Research Forum, Financial Behaviour summit
16 November 2010

(Check against delivery)

Thank you very much for that introduction. I am very honoured to be here today among such an excellent line-up of speakers. At the Consumer Financial Education Body, we really value the work of the Forum in bringing together a wide range of interests to share research into such important matters. We look forward to working together as we develop our longer-term strategy and approach.

This is our first presentation to the Forum and we're grateful for this opportunity to showcase our research and update you on our work, as well as learning from you about all the fascinating research in this area.

My plan this morning is to let you know about CFEB's role and why we exist; why research to understand financial behaviour of consumers is important to us; to update you on our current research plans; and emphasise why collaborating with others will be central to our success.

So who are we? I know that many of you in the audience are familiar with CFEB, but for those who are not, we are the independent body set up to help people understand and manage their money. We were established in April under the Financial Services Act 2010 with strong cross-party support. We are taking forward the financial capability work previously undertaken by the FSA. We are halfway through what is a transitional year, during which we are developing our longer-term strategy and completing the FSA’s five-year Delivering Change strategy for financial capability. The excellent work and investment over the last few years, such as in schools and with young NEET people, will not only become embedded as good practice wherever possible, but will also provide CFEB with a springboard for its future work in helping people understand and manage money.

We are, therefore, at a very exciting point in time as we find ways and means to encourage people to engage with money management and as we work with our range of stakeholders to secure better outcomes for individuals and for society as a whole.

Our long-term strategy will be launched early next year. Our short-term priorities are clear. As you may know, the Government has asked us to deliver a national financial advice service by next spring. This builds on the very successful money guidance pathfinder that followed the Thoresen Review. We are busy preparing for the roll-out nationally of a face to face and telephone service to compliment the web offering and all our other printed products, guides and so on. We will draw upon the rigorous evaluation by Professor Elaine Kempson published in the summer, which found that there is a clear need and demand for a service like this.

The new and key element of the advice service will be a ‘financial health check’, the principal purpose of which will be to help people understand and manage their money, and bring about behavioural change as a result. But it is also designed to encourage people to take action, for example to buy a financial product, seek professional advice, or attend to their budgeting.

So why is a dedicated, statutory body needed to do this? Because it’s acknowledged now that the inability of individuals to manage and understand money not only has repercussions for their own wellbeing but brings wider social and economic risks. So it’s important that the service we provide is universal, accessible and valuable to everyone. That is what we are developing.

And the financial crisis gave new urgency to our work. There is recognition of the extent to which we’re collectively vulnerable to financial shocks. It also underlined the complexity of the financial services market and the fragility of consumer confidence.

At the same time changing demographics and changes in public policy are leading us towards a greater need for individual responsibility. This has coincided with the investigation and greater understanding of consumer behaviour which is helping to inform our own work. And our advice service is intended to complement those services already available in the regulated and debt advice markets.

We recognise that information, education and guidance may not alone be enough to generate the behavioural change required so people are better able to manage their money. Engaging people in the right place at the right time, with information that is relevant to them is absolutely key. Our research and experience shows that reaching people at key life stages and major life events work best because it is at these times that people have the greatest need for information and advice. We have used a number of life events to guide our approach to date, for example, the birth of a child, the approach of retirement, divorce or separation, redundancy. The 'messenger' is absolutely key to the successful delivery of that information and I can think of no better example than the provision to every expectant mother in the UK of the 'Parent's guide to money' by midwives.

To have greatest impact, we need to be certain that we are developing products and channels that achieve their aim and appeal to people. To this end, we undertake rigorous consumer research – mainly attitudinal to date – during the design of new guides and delivery channels, using pilots to assess the results, adjusting to take account of feedback, and evaluating to understand the results.

So, almost all our work to date has been researched and evaluated for its relevance, its reach, and above all, the actions of end-users. We are now developing new dimensions to our design and evaluation which go beyond reach and actions and attempt to establish real impact and behavioural change.   We look forward to sharing these approaches over the coming months and seeking your feedback as we go.

Some examples show that our work does lead to action. For example, two thirds of people receiving the Parent's guide to money had taken action, including buying life insurance or opening a savings account, as a result of receiving the guide. And it had the biggest impact on the groups that some people may have assumed we would struggle to engage – such as single parents, young parents, and those from minority groups.

In our first annual Business Plan, we set out how our work over this year is geared towards generating well over a million key actions. As a result of our work we expect at least half a million people to take out financial products or switch to better deals.

A quick run through some of our past research: In 2005, 'Towards Understanding Consumers' Needs' was our first attempt at segmenting the UK population and identifying a life-stage approach. Our baseline survey in 2006 served as the basis for much of the FSA's financial capability work and has set a world standard. We are, as you may know, undertaking a second national study of financial capability which will assess not only a 'baseline' for 2011 but will also explore wider issues to help inform our work. More to come as we develop on this important area of our research.

In 2008, studies by David De Meza and Adele Atkinson showed the lack of really robust evidence of the effectiveness of financial education across the world and the challenges we face in changing people's behaviour. This provided real food for thought for us.

In 2009 we used the British Household Panel Survey to look back over 15 years at changes in wellbeing and financial capability – particularly people's ability to make ends meet. It found that an increase in financial capability leads to an increase in wellbeing and life satisfaction and a reduction in depression and anxiety.

That takes us up to the present day, and our efforts to understand how we can change consumers' financial behaviour to improve outcomes.

Earlier this year we published 'Transforming Financial Behaviour', which applies the MINDSPACE framework, also used by the government, to identify some of the instinctive drivers of financial behaviour. We are embedding in our current products and channels some of the findings from that report, some of which (such as the use of the 'messenger') we had already implemented. We are particularly excited, given the scale of the task, to be working with Professor Paul Dolan of the LSE to help us use the MINDSPACE framework to engage people with the financial health check and to ensure it is effective in helping people understand and manage their money.

We're looking from a different angle at the challenges of changing behaviour identified in the De Meza report, and elsewhere, and trying to find ways either to overcome these barriers or to make use of them to benefit consumers.

Let me give you some examples. Prof Maule talked this morning about mental accounting – people tend think of their money as sitting in different pots for different purposes. Rather than trying to overcome this effect it can be harnessed by encouraging the industry to develop products that enable people to allocate and so protect money for different purposes, yet see at a glance what is where and make it simple to move money around to meet unexpected demands.

Another example is discounting the future. Knowing we tend to live for today at the expense of tomorrow, could we make the future more salient? A US study found that in a money allocation task people who had spent time seeing themselves as they might look twenty years from now put much more money into their retirement fund! We don't know how long this kind of priming effect would last in the real world, but is does give us insight into the significant effects the environment has on financial decision making, and perhaps cosmetic selection!

And it's important to remember that the barriers to changing behaviour are not all related to the individual. At least as important is the environment in which decisions are made and all of the factors that impact on it, including access to products; how firms sell products; how they are regulated; social norms and the influence of family and culture.

We need to deepen our understanding of these factors and how we can influence them to improve outcomes for people. To this end, we recently launched the CFEB Financial Behaviour Research Fund. With an initial focus on saving behaviour we have received a number of research proposals. We are working with the Economic and Social Research Council to evaluate these, to ensure that work we commission fills genuine knowledge gaps and has impact for ourselves, the financial services industry and our other stakeholders. We look forward to a growing collaboration with the Council that will help to ensure our research funding is effective.

This brings us to today and I am very pleased to share our research report on Financial Capability and Saving. Copies are now available on-line and we have hard copies here for you to take away today. The report uses data from the British Household Panel Survey covering a 15-year period to investigate what predicts whether someone will start saving and build up a saving habit. We believe this is a vital area of research given the importance of saving to people's ability to manage their money, prepare for the future and cope with income shocks.

The research looks at the relationship between savings and financial capability. It focuses on short-term, 'rainy day' savings and investigates the key drivers of savings behaviour, in terms of whether or not an individual puts any money aside, their level of savings and factors associated with continuing to save. Importantly, it finds that financial capability has a large impact on people's saving behaviour, over and above that of their household income and independent of their household characteristics. So what else does the research tell us?

The research highlights the extent of the challenge we all face in helping people to plan ahead and improve their resilience to financial shocks. Around 40% of the population tend to be persistent non-savers and another 40% are irregular savers. As you might expect, income is an important factor. Only 20% of adults in the lowest income quintile put money aside, compared with around 60% with the highest incomes. However, among people who do save, it's those with the lowest incomes who saved the highest proportion, at around 10% of monthly household income.

Many individuals move in and out of saving and these trends could be enlightening in understanding changes in savings habits. The first few years of saving seem to be a particularly vulnerable period: 25% of people saving in one year had stopped after three years.

We also looked at social and demographic factors linked to saving. It won't be a surprise that people who are more likely to save are in work, have qualifications, no dependent children and are either married or were never married.

In spite of these findings, and turning to the relevance of this research to CFEB's work, financial capability has a large impact on people's saving behaviour, independent of income and demographic factors.

A person with average financial capability is nearly 20% more likely to be saving than someone with the same characteristics but low financial capability. A more financially capable person is less likely to stop saving. And if an individual moves from relatively low to relatively high financial capability, this increases their chances of starting to save. The size of this effect is similar to that of an increase of £1,000 per month in household income.

So what are the implications? Firstly, it supports the view that helping people to manage money, and encouraging people to save, are well-matched aims for government and industry.

And secondly, by better understanding savings habits, we are better placed to influence those habits. If we learn more about the habits of persistent savers, we may be able to use their methods to help the non-savers and irregular savers. If we can engage these groups effectively we can help them to start putting money aside and convince them of the benefit of regular savings.

But it’s important for the change in behaviour to last; and for people to make their own decisions about when it’s appropriate to save.

To return to an earlier point, we need to improve understanding and we need to change long term behaviour. We want to empower people to take control of their money and take responsibility for their decisions. Again, behavioural research can help. It indicates that the approach we have used – reaching people through trusted intermediaries – is effective. The messenger makes the message compelling, reinforcing the importance of good partnership working between us and trusted intermediaries.

If we want to change behaviour, we need to make decisions about the sort of behaviour we want to see. This raises ethical questions – who are we to decide what desired behaviour is, and on what basis do we make that decision? We're giving this some serious thought, particularly as we consider 'healthy' financial behaviour with the health check. But we believe the link with wellbeing is a good starting point. Ultimately, we are focused on outcomes for the consumer. The intention will always be to improve financial capability in five key areas: making ends meet, keeping track of money, planning ahead, choosing products and staying informed about financial matters. These seem reasonable and tested areas for focus.

As we've discussed, to improve people's ability to manage their money we need to influence the social environment. We would like to work with industry, regulators and other stakeholders to help make healthy financial behaviour a social norm. We can't do it alone and are excited by the many and positive responses we received to Transforming Financial Behaviour which suggest a shared vision.

Together we can tackle some of the key outstanding questions we face. What practical applications are there to improve people's ability to manage money? How can we use cognitive bias to change behaviour? What are the roles of social norms, family and culture? What role should firms, the government, regulators and others play? How can we build enduring behaviour change?

Once we deepen our understanding in these areas, we can expect to do more to change behaviour and norms, so that more people begin to think longer term about their finances, take more responsibility for their money, are aware of their choices and make informed decisions that lead to good outcomes. It should improve the economy, the financial services market and people’s lives and we look forward to working with you all to achieve this important aim.

Thank you.