The Centre for Financial Capability's (CFC) submission to the APPG on Financial Resilience's Call for Evidence

Background to the Centre for Financial Capability

The Centre for Financial Capability (www.tcfc.org.uk) is a new charity, launched in July 2021 by the backers of KickStart Money, with a mission to ensure every child in the UK develops the skills and behaviours necessary to navigate critical financial decisions in their life, starting from primary school.

KickStart Money (www.kickstartmoney.co.uk) is an award-winning coalition of 20 savings and investment firms who have donated over £1 million to fund primary financial education to over 20,000 primary pupils across the UK, in partnership with the charity MyBnk.

The coalition was brought together by The Investing and Saving Alliance (TISA) in 2018, in response to research by Cambridge University published by the Money and Pensions Service (MaPS) which found habits and attitudes towards money are formed as early as age 7. [1] By this age, children are able to recognise the value of money and are capable of complex functions such as planning for the future and understanding the irreversibility of some choices.[2] It is this understanding that is crucial to ensuring young people are able to build the financial capability skills which are essential to adult life.

The charity will bring together stakeholders across the primary financial education space to effect change. It will also foster innovative new delivery models, build evidence of what works and work with Government to maximise the provision of primary financial education for all. To learn more about the Centre for Financial Capability check out our launch video here or visit our website at www.tcfc.org.uk.

Current members of the Centre for Financial Capability include: ABI, Aviva, Axa, BlackRock, BMO, Columbia Threadneedle, CQS, Janus Henderson, Lazard, Legal and General, Legg Mason, Liontrust, M&G, Newton, Pool Re, Prudential, Quilter, Schroders, Standard Life Aberdeen and St James's Place.

As part of our launch, CFC supported the All-Party Parliamentary Group (APPG) on Financial Education for Young People on their recent inquiry into the provision of financial education for young people in the UK.

The report called on the Government to prioritise and invest in primary financial education to ensure every child receives a high-quality and effective financial education. The report made the key recommendation that the UK Government, in partnership with MaPS, must ensure all children in the UK have access to high-quality and effective financial education by 2030. CFC has identified a number of barriers which are currently preventing the sustainable implementation of financial education at scale as a key challenge to achieving the APPG's recommendation.

Responses to call for evidence

1. **How has the Covid-19 pandemic affected people's financial wellbeing & financial resilience?**

Prior to the pandemic, 11.5 million people already had less than £100 in savings.[3] Between March and October 2020, the number of adults with low financial resilience increased by 3.5 million, and

[1] Money Advice Service, Press Release, *Adult Money Habits Are Set by The Age of Seven Years Old*, May 2013.
[2] Ibid.
[3] The 2018 Financial Capability Survey.

8.1 million people expect to take on debt in the near future.[4] It is clear that the Covid-19 pandemic has affected people's saving habits and relationship with money, shown by the increase of the number of people in debt.

CFC recently ran some polling, which revealed that more people in 2021 have worries over finances, money and debt around Christmas than compared to 2020. This is mostly felt in young adults: one quarter of 18-34-year-olds felt anxious about money, budgeting and debt in the 2021 Christmas period, compared to one fifth in 2020. This suggests that more people have been affected by financial issues and are more worried as the pandemic has gone on.[5]

It is also crucial to understand that, for children and young people, their financial wellbeing and attitudes to money have also changed due to the pandemic. 6 in 10 young people now state that the pandemic has made them feel more anxious about money.[6] The Centre believes that financial education at a young age can promote positive money spending habits and attitudes amongst children, giving them the necessary financial skills to prepare themselves for any financial shocks in the future. It is important that children and young people are kept in the conversation about financial resilience and financial wellbeing, especially given the fact that money forming habits begin at the age of 7.

According to polling that the Centre recently commissioned, over half of UK adults did not receive any form of financial education. This is an extremely high number and shows that more needs to be done to ensure financial literacy and wellbeing skills are taught at a young age.

2. **Has Covid-19 made people more aware of income shocks?**
    a. **Has the pandemic made people more aware of the financial risks they face?**

The increase of people using Buy Now, Pay Later schemes, without knowing the specific financial risks or dangers involved, suggests that the pandemic has not necessarily made people more aware of the financial risks they face – at least when it comes to credit and debt. Almost a third of 20–30-year-olds are now using BNPL schemes, with around 15 million adults of all ages using them – this is an increase of 2 million since the start of the year.[7] The Centre's recent polling found that over 40% of UK adults have used, or expect to use, these schemes in the future. However, nearly a quarter of those who have used BNPL services were charged late fees, suggesting that they were not given a full disclosure or background information on the schemes. There is an estimated 8 million people who are in debt, worth around £4.1 billion, from these BNPL schemes alone.[8] Although these schemes are interest free, missed or late payments can affect the user's credit score, and these schemes encourage people to spend money when they don't have it. The Centre's polling also found

[4] Financial Conduct Authority: Financial Lives 2020 Survey – the impact of Coronavirus, February 2021.
[5] This polling was commissioned by the Centre for Financial Capability and undertaken by Savanta ComRes. It was conducted from Thursday 9 December to Tuesday 14 December, and the sample size was 2176. The age range was 18+.
[6] LIBF – Young Persons' Money Index, March 2021.
[7] Research conducted by data company Equifax, 2021.
[8] Research conducted by Credit Karma, 2021.

that nearly one fifth of people who have used these schemes did not feel they were given the full information – showing that people are not aware of the financial risks.

The Centre feels that financial education, at a young age, is a key and necessary way to combat people falling into financial risks, and to make sure people are more aware of financial pitfalls. The increase of people using these schemes since the pandemic – perhaps due to the ease of online shopping, and the rise of money worries around Christmas – suggests that people may not be aware of the financial risks. This proves that high-quality and effective financial education is necessary to mitigate these consequences.

There is a strong link between financial stress and damage to mental health. Covid-19 has also caused a significant rise in mental health issues among children and young people, with one in five 15 to 24-year-olds now saying they often feel depressed. [9] For many children and young people, many of these mental health issues and anxieties have stemmed out of worries for the future, often around family income and financial stability. As a result of the pandemic, 6 in 10 young people now state that the pandemic has made them feel more anxious about money. To ensure greater overall mental health and wellbeing in children and young people, it is vital that children are equipped with financial literacy skills. Financial wellbeing is just one part of overall wellbeing, and early intervention in financial education is an important way to promote positive attitudes towards money and to mitigate negative thoughts or fears about finances.

b. Are people aware of the financial safety nets available to them if they were to fall out of the workplace?

Research conducted by the Centre has shown that many people are unprepared in their financial futures and many struggle to save or budget in case of future unemployment or lower income. Nearly 70% of young people do not feel confident in planning for their financial future, and nearly a quarter of 18 to 24-year-olds have less than £100 in savings.[10] This shows that if someone, particularly a young person, were to be made unexpectedly unemployed, they may lack a financial safety net. It is essential that young people are prepared for the workplace – and for any employment risks – and understand how to best manage, save and budget their money as an adult.

The KickStart Money and MyBnk financial education programme, targeted at primary school children, includes a focus on workplace finances. This includes tax, benefits, payslips and how to properly budget. Encouraging young people and children to think about future financial planning, especially related to workplaces and employment, is a key first step in ensuring greater financial resilience and wellbeing for future generations.

3. Has the pandemic changed people's savings habits?

a. Are people saving for the future, for both the short and long term?

Prior to the pandemic, 11.5 million people already had less than £100 in savings, and an estimated 9 million adults were borrowing money to buy food or pay their bills, and nearly 9 million adults were in serious debt.[11]

[9] Unicef report, The State of the World's Children, 2021.
[10] All-Party Parliamentary Group on Financial Education for Young People inquiry report, 2021.
[11] Ibid.

The pandemic has shown that children and young people are more worried about their financial future and are more anxious about money. However, it is proven that financial education intervention at a young age can increase children's saving habits. An evaluation into the KickStart Money financial education programme, in partnership with the charity MyBnk, found that 2 out of 3 primary aged children who took part were working towards a savings goal after receiving lessons. This is nearly double the national average. This shows that early financial intervention can help build long-term money saving habits, which children and young people can use in their later life.

b. Are people thinking about their retirement, and at what age?

Research conducted by the Centre has shown that, although financial education is included in Key Stages 3 and 4 (in secondary schools), choosing and using pensions are topics that are rarely covered. This is a key oversight, as many young people do not know or understand how pensions work, how much to contribute, or when to start paying into a pension pot. This then has a knock-on effect onto retirement, and people's attitudes towards retirement. It is essential therefore to increase financial education provision at both a primary and secondary level, and to ensure that these topics related to pensions and retirement, are included.

It is established that the sooner a person starts saving for a pension, the less he or she may need to save each time due to the effect of compound interest and growth. Small savings made earlier in life will give much larger returns at the point of retirement. Many people think that they need to start by saving huge amounts of money - if people leave it till quite late in life to start saving, then this is true and the amount they need to save will be larger. However, if people start saving at a younger age, then the amount each month can be quite small. Financial education targeted at a younger age can help to educate children and young people on the benefits and importance of saving early, and help to dispel the myths around saving for retirement.

4. Have different groups within society had different financial experiences throughout the pandemic?

a. Have there been differences by age, gender, ethnicity, housing tenure and region?

It is important to include under 18s, especially primary-aged children, in discussions about financial resilience and wellbeing. Although their spending capital is less, and they have less access to credit cards, BNPL schemes and other credit initiatives than adults, children at a young age are incredibly exposed to money and spending. Children receive pocket money, spend money via Xbox and other video games, and have phones with online money spending apps.

The pandemic has caused a rise in the use of digital currency. Even before the pandemic, more and more monetary transactions that took place were digital. The rise of online banking platforms, such as PayPal and Monzo, has meant that consumers are used to paying for things digitally. Covid-19, with the fear of transmission via coins and notes, meant that the use of digital currency increased even more. For many children and young people, they may not remember a time when coins and notes were used, and digital currency is all they know. In fact, many children who take part in the KickStart Money and MyBnk financial education programmes have never seen coins before and are unable to differentiate between different ones.

This will likely affect their financial experiences and their relationship with spending and saving. As children and young people cannot physically see money leaving their hands or purses, it may mean that they don't grasp the consequences of spending, or may spend more than they can afford. It is therefore crucial that children and young people are given financial education lessons in order to learn financial skills, such as budgeting and saving, that can apply with digital currency. The Kickstart Money and MyBnk financial education programme proves the benefits of delivering lessons to children. For example, the most recent Year 4 evaluation report showed that before completing the KickStart Money programme, only 59% of young people were able to understand, discuss, and articulate new knowledge of money habits. Following completion of the programme, this rose to 73%. This shows that delivering financial education in primary-aged children is an effective way to ensure children's financial experiences and saving habits are resilient, even as the financial landscape is changing.

Financial learning and saving platforms, such as GoHenry, are also brilliant ways to ensure that children learn how to budget and understand the difference between needs and wants, and how to save and spend efficiently.

There is also evidence of differing levels of financial provision and education around the UK. Financial education lessons tend to be skewered towards London and the South, with less provision delivered in the North of the UK. Our evaluation reports have shown that children who have lower financial capabilities make larger improvements by the time that they complete their programme. The Year 3 evaluation report shows progress for all young people averages at 7% across three independent evaluations, however, for young people most in need, it averages 56%. Young people most in need are more likely to attend schools that are located in areas that are high on the Income Deprivation Affecting Children Index, have a larger proportion of pupils who are eligible to receive free school meals, and are located in areas that have higher Indices of Multiple Deprivation. However, despite coming from poorer backgrounds, and having lower financial literacy skills, these children are much more likely to show quicker and more successful signs of learning and development after receiving the financial education programme, compared to children from less poor backgrounds. This shows the importance of ensuring that all children, no matter their background, receive a high-quality, efficient and sustainable financial education. It is important that financial education is an equal and accessible provision, and that the children who may need from it and learn from it the most, are given the opportunity to access it.

5. **Have workers in different sectors had different financial experiences throughout the pandemic?**
    a. **Have people in different sectors had different financial experiences during the pandemic? For example, those working in retail and hospitality?**
    b. **How have the self-employed been financially impacted by the pandemic? Are there differences between them depending on sector and gender?**
    c. **How have the unemployed coped financially in the pandemic?**

Workplace and employment experiences are not necessarily in our remit as the Centre (unless it is related to financial education on workplace and employment, e.g., taxes or payslips). However, it is proven that financial education in younger years can help prepare for and combat against future financial shocks. There is also proof of a "financial education overspill" – in other words, when children and young people learn positive financial education habits, relating to, for example, taxes, payslips and saving, they then take these lessons and tips back to their families. The KickStart Money and MyBnk funded financial education programme provides children with workbooks and encourages them to go home and do some of the exercises with their families, parents or carers. There is some anecdotal evidence of the parents and carers learning some tips from their children and boosting their own financial resilience and literacy in this regard. Financial education, and the overspill to parents and carers, can therefore help adults in the workplace to deal with financial difficulties and employment experiences.

6. What policy changes would improve people's financial resilience, in light of the pandemic?

The pandemic has bought to light the many discrepancies in financial resilience, attitudes towards money and saving, and general financial wellbeing across the UK. While some people were able to save and re-evaluate their financial habits, many people lost income, found themselves in higher debt levels, or negatively changed their financial habits. The pandemic also showed the importance of long-term financial planning. The Centre believes that the best way to ensure financial planning and resilience in adults is to ensure that children are given financial education lessons at a young age. The Centre believes that prevention is better than the cure, and it is crucial to give children the financial skills at a young age, when habits towards money are first formed, to combat unemployment, poverty and lower levels of wellbeing which may occur in later life, as a result of poor financial literacy skills. By delivering financial education within the classroom, the Centre for Financial Capability equips young people with the necessary skills to develop positive money attitudes and to manage their finances effectively when they reach adulthood.

The Centre's key policy proposals, which would improve people's financial resilience, are as follows:

1. Build financial education into the national curriculum. All primary children should receive a high-quality and effective financial education by at least 2030. To meet this ambitious target, it is crucial that each nation in the UK devises a stand-alone national strategy for delivering financial education for primary-aged children. These lessons could be taught within PSHE or Citizenship and should also include a post-Covid catch up programme, to ensure that financial difficulties as a result of the pandemic, are also covered in the lessons.
2. Reform to school inspection frameworks and assessments. Financial education should be included in the school inspection framework, aka Ofsted, to encourage its delivery. Financial education lessons should be assessed in similar ways to other subjects on the curriculum, and the PSHE requirements should be broadened to ensure that economic wellbeing is also covered.
3. Funding mechanisms. The Centre believes that unclaimed dormant assets, set to be unlocked from the saving and investment sector, should be used to fund organisations with specific aims of promoting and funding the development and delivery of financial education in primary aged children. This funding could also include a continued expansion of contributions and donations from the financial services industry (in the case of CFC, this comes from the savings and investment firms). The Centre believes that

the Dormant Assets Bill, which is currently in the House of Commons, is an important way to ensure that unclaimed monies be used to fund for financial education.

4. Continuous development. The Centre believes that long-term research, innovation and evaluation is vital to ensure that primary financial education is consistently tested and updated. The Centre will deliver research topics, and launch an innovation fund, in order to test and provide a variety of delivery models. There should also be an investigation into longitudinal studies to explore the links between financial education at primary level and future financial capability. In the long-term, the Government should conduct a UK-wide assessment of financial capability of young people, undertaken on an annual basis.

The Centre believes that long-term funding models, such as unclaimed dormant assets, can ensure the sustainability and viability of financial education programmes in primary schools. Financial education is the key first step in ensuring future financial resilience, and so it is crucial that financial wellbeing in children, particularly primary-aged children, is taken as seriously as that in adults.