

Thoresen Review



Submission by Bdifferent,

Why is it that a large segment of people in the UK do not sort out their finances?

As background to the Thoresen review, we thought it would be useful to feed in our view, based on years of researching consumers about financial matters, on the reasons why certain segments of the UK consumer market do not appear to make any provision for saving for the future and indeed, who build debts, rather than make any provision for the future.

Consumers across the UK often contradict themselves in what they say and what they do. The underlying theme that comes from all our research is that the majority of consumers recognise and state that although it is sensible to have their finances under control and have financial security for themselves and their families, both in the short and the long term, in reality they contradict this by not taking the necessary actions, particularly when saving for the longer term. It is important to understand what holds people back.

Live for today and let tomorrow take care of itself

Bdifferent has interviewed consumers across all sections of society and has found in recent years, that a different attitude towards debt and taking responsibility for finances has been emerging. Even amongst the higher income level consumers, there is very much an attitude of 'live for today and let tomorrow take care of itself'. It would appear that there are

a number of reasons for this, ease of access to credit, a culture of buy now and pay later, and of particular note an attitude, fuelled by rises in house value particularly in London, that individuals are sitting on wealth that they believe they can access when they need to.

Bricks and mortar

Owning property is perceived by many people as more sensible and reliable than any form of saving or investing for the future. Pensions are seen as unreliable and the outcome is no more secure than gambling. Perception amongst C2, D's interviewed in London for example, was that because they had so much equity built in their property, they could downsize, move to the country and release equity to fund their retirement income. Among those approaching retirement (220 50 – 70 year olds) 45% thought they would sell their family home and downsize to fund their retirement

Attitudes towards saving

Research amongst C1 consumers to explore attitudes towards saving, revealed some interesting views. Recognising that most spend what they earn, consumers were asked what they would do with an extra £25 a month. Many felt it would not be noticed, others that they would spend it on a treat, others that they might pay more off their credit cards.

We found that the 'habit' of saving appears to be instilled at an early age, those who were encouraged by parents to save pocket money or earnings from Saturday jobs etc had more of a propensity to save through to later life.

The risks involved in saving

Perceptions about the risk of taking out financial products are pretty consistent across demographic groups. In a survey among B, C1, C2 putting money into a savings account was seen as low risk, taking out a credit card was low to medium and ranked alongside buying a car, investing in stocks and shares was seen as medium risk alongside getting married, while taking out a pension was considered high risk and rated along side parachuting.

Some talk about not trusting companies that provide pensions or investment products, but when probed, for some it appears to be an excuse to delay or not to think about it.

So many other demands on your money

For others, the sheer 'weight' of living is enough to put them off saving. Paying off debts, credit cards (often built up from an early age e.g. university), mortgage, children etc, just prevents there being anything left to do anything with. There is also huge pressure, and we found this in lower socio economic groups as well as with higher earners, to buy the latest trainers, electronic devices, sky package etc, and many would rather do this than save.

A number of factors delay customers from starting to save including:

- Age
- Life stage
- Perception of being able to afford it
- Waiting until enough funds to put away without touching
- Winning the lottery/an inheritance
- Not really understanding investment products or investment risk
- Leave until sometime in the future

Factors that might encourage investing include:

- Taking time to learn about stocks and shares
- Having an investment product with access to the funds in an emergency
- Good interest rates
- Guaranteed returns
- Trusting the organisation
- Incentives

Incentives for saving

Worryingly, a large number of consumers we have spoken to across all demographic groups in the UK do not appear to understand the tax advantages of saving, particularly regarding pensions. Those that do understand tend to be more financial astute and have an adviser/accountant who has explained the process.

When talking to C1, C2, D non savers about being encouraged to save by receiving a cash 'bonus' based on what they could save, many warmed to this idea and had no idea that this is what the Government already does with pensions. If the bonus is 'lost' in the tax coding

system this does not act as an incentive as it is not understood. It needs to be made very clear in monetary terms – ‘you put in £X and the Government will put in £y.

Obtaining information and advice

UK consumers make a clear distinction about information and advice. The first is seen as inactive and the second is seen as active and tailored to an individual’s circumstances. Savers and non savers are aware they can get information on financial products from a wide range of sources such as the post office, libraries, banks and buildings societies, supermarkets, internet, the press, direct from companies etc. Among a large sample of equity release product holders when asked how they had first got to hear about equity release products over half had first learnt about them from TV or press advertisements and telephoned for information. All recognise information is free. Loans and credit card companies are seen as the black end of the industry with their information seen as junk mail.

The majority of UK consumers are aware of various sources they can get advice from – in a study of 2000 consumers over two thirds mentioned banks/building societies as possible sources and over half mentioned independent financial advisers. All agree it is hard to obtain safe and sound financial advice but those who do use some form of adviser tend to trust ‘their’ adviser, with a little niggle at the back of their mind as to whether it will come good in the end. Many will refer to family, friends and colleagues as a first port of call. Generally non-savers state that financial advisers cannot be trusted and this helps them delay having to find one.

Around three quarter of UK consumers claim that if sources of advice were approved by the Government or ‘kite marked’ they would have more confidence in that advice.

Financial concerns consumers have in the UK today

When asked about financial worries consumers across the age ranges and demographic groups mentioned:

- *Redundancy*: Concern over losing job; concern for students in getting a job

- *Cost of living*: Inflation and prices going up faster than salaries – balancing the ‘books’ each month. Money out being more than money in
- *Savings*: No cash spare to save even for the short term, no rainy day money
- *Pensions*: Not saving for retirement; worry about whether any pension provider can be trusted
- *Credit cards*: Spending spiralling out of control, easy access to extra credit; constant switching to get 0% deals
- *Loans*: Taking them on and not being able to afford them, student loans a real millstone
- *Health*: Poor health leading to not being able to work; and the waiting time in the NHS for operations
- *Cars*: Getting one and keeping it on the road (price of petrol)
- *Housing*: The challenge of getting on the property ladder; paying off the mortgage
- *Financial services products*: Understanding them, knowing which is the best deal

Quotes from groups:

“Paying back my student loan, paying back the overdraft, paying rent, finding enough money to do a Masters, paying for children to go to school in the future....”

“I can economise but it is boring to do so”

“The pension costs a lot to fund and there are no guarantees these days, a job for life is mainly a thing of the past”

“Pensions - how much will I need to live when I am retired, I’m not saving anything yet?”

“Credit cards I feel like I only ever pay the interest on the bill and it never gets smaller

And because of this lack of financial planning when we asked 50 – 70 years olds about income in retirement, 62% thought they would continue to work.

26 April 2007

Bdifferent

Background on Bdifferent

Having a combined financial services experience of over 40 years, the two directors of Bdifferent have built substantial knowledge of the consumer financial market. This submission is based on research projects carried out over the past 5 years with consumers from a wide range of backgrounds.

Teresa Roux

Teresa has considerable expertise in both qualitative and quantitative research projects and brings with her a knowledge that spans several industries. Since establishing Bdifferent she has been involved with a number of key projects on marketing strategy, branding, customer insights, and communication developments. In her earlier career Teresa was responsible for establishing and successfully managing the research function of a large financial services company. Teresa has been a member of the Market Research Society for the past 15 years, she has an MA in Marketing and has presented award-winning Research papers.

Kim Bell

Prior to Bdifferent, Kim headed up the Marketing and Brand function of a financial services company. She has successfully created and developed brands in and out of financial services and regularly lectures and speaks on brand and communications issues. She is also a past examiner of the Chartered Institute of Marketing. On the client side, Kim worked in senior positions for TSB Bank, NPI and AMP. Kim has been involved in all aspects of marketing and marketing communications, including heading up the direct marketing function for TSB Bank and has worked extensively on qualitative brand research projects both in financial services and across other industries.

Contact details:

Kim Bell & Teresa Roux, Directors

Bdifferent Limited

Tel: 01293 601901

Email: teresaroux@bdifferent.co.uk