The diverse role of financial capability in building future economic stability

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Nine out of ten British adults have never been taught how to manage money. Given this startling figure, it is easy to see how people were left vulnerable to the manipulative lending practises which played a major role in plunging the world into the largest financial crisis since the 1930s.

MyBnk are a British educational charity which has worked with over 15,000 young people in schools, colleges and youth clubs across London and South East England. Our aim is to enable those we work with to build the knowledge, skills and confidence that they need to be able to manage their money effectively. We believe that momentum is building behind the cause of creating a new generation of informed financial consumers. Ensuring that all society's young people become financially capable is now widely seen as a key pillar in preventing a crash of the magnitude just witnessed from happening again. However, financial capability also has the potential to play a much broader role in helping Governments build economic stability in the future, by driving social mobility and making a positive contribution to national finances.

MyBnk recently conducted qualitative research in the Brighton & Hove region of South East England in conjunction with The Aldridge Foundation, an enterprise education charity. The aim was to examine the nature of young people's relationship with money. One of the most powerful findings of this study was that many older participants stated explicitly that if they had possessed the skills necessary to manage their personal finances earlier in life, it would have encouraged them to aspire to greater educational goals. Some went as far as to say that they would have gone to university if they had recognised the benefits of saving at an earlier age, with one participant saying that "If I had known earlier, I would have started saving when I was [aged 13] in Year 9".

This in itself is a hugely important point, but it is brought into sharp relief by the current debate in Britain surrounding university finance. In September the Confederation of British Industry recommended that the Government should increase student tuition fees and reduce levels of support in order to supply the extra funding currently needed by universities. This proposal has encountered strong opposition from groups such as the National Union of Students, the Association of Teachers and Lecturers, and university think-tank Million+. However, if it is ultimately adopted, saving will become more important than ever in enabling Britain's young people to access Higher Education, and therefore in providing the skilled workforce necessary for future economic competitiveness.

There is also significant evidence to suggest that improving levels of financial capability can generate substantial benefits for both individuals and also, crucially, the state. Building a financially capable population is therefore an issue which is of considerable importance for economies across the world. For example, research in an Australian context was undertaken for the Commonwealth Bank Foundation in 2004. The final report, entitled "Improving financial literacy in Australia: benefits for the individual and the nation", produced some striking findings.

The Foundation conducted a 20-point financial literacy test with 5,000 16-65 year olds, and modelled the effects of a modest improvement amongst those whose scores were in the bottom 10% (the single largest proportion of whom were young people aged between 16 and 20) over a ten year period. It estimated that on average, annual incomes for this group would increase by AUS$3,204, and the likelihood of unemployment would be reduced by 0.16 percentage points. Consequently, it suggested that Australia's GDP would increase by AUS$6bn a year and 16,000 new jobs would be created, as a result of strengthening national savings, boosting consumption, injecting more capital into major industries and stimulating small business growth.

A strong argument can therefore be made in favour of the view that improving the financial capability of a nation's citizens can make a substantial impact at a macroeconomic level, and that it should therefore be a central concern for policy makers. Indeed, the British Government have looked into this, and commissioned Otto Thoresen to examine the potential benefits of a generic financial advice scheme for adults called Money Guidance (which they now intend to roll-out nationally). The Thoresen Review was published in March 2008, and estimated that the quantifiable benefits of such a scheme over the period 2009 to 2060 could be up to £6bn. This included £2.6bn through savings on payments of pension credits, £1.6bn through VAT receipts as aggregate consumer spending rises, and between £450m and £1.8bn from tax receipts on interest payments as consumer savings increase. A number of significant but unquantifiable benefits were also identified, such the increases in productivity which would come from reducing workers' stress about their financial circumstances, and additional tax receipts from the growth of the financial services sector.

While focusing on a single scheme targeted primarily at adults and examining results over the very long-term, The Thoresen Review reinforces the view that financial capability programmes can offer definite material benefits to national economies. The advantages of ensuring that future generations become financially capable from a young age therefore seem clear.

However, despite the prospective benefits of improving standards of financial capability, we have found that there are certain short comings in the provision of appropriate educational programmes for young people in a British context, from which important policy lessons can potentially be learned. Returning to our qualitative research, it was informative to discover that none of the participants in our study had received specific training on personal money management. Rather, their experiences of learning about money in school had primarily been channelled through a business lens. Some also directly associated financial capability with mathematics, suggesting for instance that "I was bad at maths so I am bad with money". Lacking confidence in mathematics made such participants underestimate their capacity to manage money. All those we spoke to expressed a desire to learn about personal money management in a more comprehensive and exclusive way.

Furthermore, we found a distinct lack of provision for young people living in support settings such as housing associations. These young people had encountered the realities of life earlier than most, and admitted to struggling with things like budgeting, saving and dealing with new payments such as taxes after entering employment. Many also reported that their views of banks were coloured by previous bad experiences, telling us for example that "I don't have a bank account anymore". They are therefore at risk of becoming completely disengaged from the financial system, rather than being taught how to shop around for the products that would enable them to make the most of their money. Young people such as these are amongst the most in need of clear and relevant financial capability programmes, yet are unable to access it through the education system. A real and urgent gap therefore exists in provision.

In fairness, the British Government has at least recognised the importance of the issue and started to take some concrete action with regard to young people's financial capability. "Achieving Economic Wellbeing" is one of the five core outcomes of the overarching "Every Child Matters" structure which underpins services for all young people up to the age of 19. An Economic strand has also been added to the curriculum for Personal, Social and Health (PSH, now PSHE) education which is taught widely in schools, and a public consultation recently took place on making PSHE curriculum statutory.

More needs to be done however. Our research suggests that in order for teaching to be fully effective, care needs to be taken to ensure that personal money management in particular is treated as a topic in its own right, rather than subsumed in wider frameworks such as business education or practical mathematics. The Government should also be wary of focusing all of its efforts through the National Curriculum in schools. This runs the risk of excluding young people who have recently made the transition to independent living, such as those supported by housing associations, and other potentially isolated groups such as NEETs (those young people Not in Education, Employment or Training).

There is significant potential for third sector involvement in both of these regards. In the 2008/09 academic year MyBnk launched two new educational programmes. One, entitled Money Works, is aimed specifically at NEET young people moving into independent living. The other, Money Twist, is a series of rolling workshops covering a range of personal money management issues delivered to young people in schools. The initial monitoring data suggests that these programmes have an important impact on those who take part. For instance, 100% of those participating in our Money Works pilot considered that the information that we delivered was important. Meanwhile 77% of students felt confident or very confident about money and banking following our Money Twist sessions, an increase of 30% on baseline levels. These figures attest to the value that a specialist third sector organisation can add to the provision of financial capability education, by both deepening its focus and extending its reach.

Building financially capable populations could have enormous future benefits for economies throughout the world. It is also a wide ranging challenge, which demands engaging today's young people in a variety of different contexts. The third sector can play a vital supporting role in any Government strategy aimed at achieving this objective, by providing specialist expertise and extending educational coverage, and policy makers should therefore seek to encourage its role in this respect.