

MANCHESTER
1824

The University
of Manchester

Becoming Financially Capable

Executive Summary



*A report into the impact of financial
education for 16–19 year olds
January 2009*

**The Financial Capability Education Project
University of Manchester School of Education**



The Financial Capability Education Project

The core team

Dr Pauline Davis (Project Director)

Dr Valerie Farnsworth (Researcher)

Professor Peter Farrell (Adviser)

Dr Afroditi Kalambouka (Researcher)

Professor Sue Ralph, University of Northampton (Project Co-director 2004–2006, previously University of Manchester)

Dr Xin Shi (Statistical Consultant), University of Sheffield (previously University of Manchester)

Other investigators in the team

Dr Laura Black

Dr Tim Deignan (Freelance Educational Consultant)

Diane Harris

Cormac Lawler

Dr Filiz Polat (Bristol University - previously University of Manchester 2004/5)

Lawrence Wo

Data cleaning/technical interface services

Centre for Formative Assessment Studies (CFAS)

Joanna Bragg (Data Manager)

<http://www.education.manchester.ac.uk/research/centres/cfas/>

For more information about the team and research project visit:

<http://www.lta.education.manchester.ac.uk/ifs/index.htm>

Authorship for this report: Davis, P., Farnsworth, V., Kalambouka, A., Ralph, S., Shi, X. and Farrell, P. December 2007.





Foreword

In 2006, the FSA's financial capability survey confirmed what most commentators have known for some time – that many UK consumers lack the confidence and capability to make effective decisions about their money.

This is unacceptable in a modern society where there are few aspects of life that don't require some form of financial transaction.

The *ifs School of Finance* is therefore committed to improving the financial capability of young people so that future generations have the skills, knowledge and confidence to manage their finances effectively.

Achieving this is no easy task. In seeking to do so it is important that there is a rigorous and credible evaluation of financial capability programmes so that policymakers can determine the impact of financial education. This University of Manchester study therefore serves as a very useful addition to the financial capability evidence base.

The purpose of this University of Manchester study was to examine the impact of *ifs School of Finance* qualifications on young people's financial capability. The research, tracking more than 3,000 students over a period of up to three years, demonstrates beyond doubt that financial education can dramatically improve individuals' knowledge, skills and confidence in financial matters and that long lasting behavioural change can be achieved as a result.

Global economic turbulence means it is now more important than ever that consumers are able to make their money go further, but financial capability is about more than just avoiding debt, it's about making informed financial decisions that make money work for you.

For example, students who studied the Certificate in Financial Studies (CeFS) demonstrated their ability to make informed financial decisions by changing their bank account to one that yielded a better return or by purchasing products such as ISAs and investment bonds. There was an increase in the number of students owning multiple financial products and a decrease in the proportion of students who owned one or more credit or store cards. It's examples such as these that demonstrate the power of effective financial education.

The fact that young people who took this course also changed the way they value money, for example in terms of their capability to make more considered choices about how they spend money, is precisely the objective we should be seeking to achieve throughout the UK.

The qualitative data in this study also shows students talking confidently about how they were better able to handle financial matters and use their newly acquired knowledge.

The *ifs School of Finance* now also offers GCSE-equivalent qualifications in personal finance – the Foundation and Intermediate Certificates in Personal Finance – these coupled with the Certificate in Financial Studies and Diploma in Financial Studies have already been taken by well over 20,000 14–19 year olds across the UK.

This means that thousands of young people are leaving school or college feeling knowledgeable, confident and motivated to engage with their finances and manage their money well.

It is our ambition to ensure that all young people leave school with such attributes and our commitment to doing so could not be clearer. We very much hope that policymakers will take note of this powerful new evidence and will focus on supporting activities in schools and colleges that are independently proven to be effective in raising financial capability levels – not just during tough economic times but for the long term.



Donald Brydon CBE
Chairman, *ifs School of Finance*

Executive Summary

About the research

The *ifs School of Finance* offers a unique provision through its courses in Financial Capability (eg the Certificate in Financial Studies, CeFS). These courses aim to address the poor levels of financial awareness in the UK via education, especially for the 16+ age group. The *ifs School of Finance* asked a team of researchers from the School of Education, University of Manchester to examine the impact of the CeFS course on young people's financial capability. The research consisted of a longitudinal study tracking more than 3,000 students over a period of up to three years (ie for the duration of the course and for 22 months afterwards). The research was conducted between September 2004 and December 2007.

Research questions

1. How do students identify with personal financial management practices?
2. How do students' personal financial management practices vary over time?
3. How can financial education influence
 - (a) identification with personal financial management,
 - (b) personal financial management practices and
 - (c) education and career aspirations?

Research outcomes

There is ample evidence to suggest that the *ifs* course has had an impact in developing students' financial identities in various ways. This impact resulted in an increase of knowledge and awareness, an improvement in financial behaviour in terms of spending less and saving more, helping young people to better manage their personal finances, encouraging them to budget more and better, helping them engage in new financial practices, helping them picture their future financial life and plan, and helping them move towards greater independence.

The impact of CeFS on students' personal financial management compares well with evaluations of other financial education courses reported in literature (Braunstein and Welch, 2002). The data suggests that a key reason for this lies in the nature of the curriculum design underpinning the CeFS programme which is based on a 'realistic education model' whereby the content of the programme connects with their real life experiences.

The need for financial education

In a society where people are increasingly required to take responsibility for their financial affairs, there are concerns about the level of financial capability in the UK¹.

The economic and social conditions in which people make personal finance decisions have changed, with the result that they have to take greater responsibility for their financial affairs. For example, the costs of higher education and retirement are increasingly being met by individuals rather than state organisations.

The need for financial education has been further emphasised by evidence that shows there are low levels of financial capability in the UK. In March 2006, the Financial Services Authority (FSA) conducted a Financial Capability Survey to establish the level of financial capability in terms of how well Britons make ends meet; keep track of their finances; plan ahead; choose financial products; and stay informed about financial matters. The FSA survey produced the following findings:

- A large percentage of the UK population, from all sections of society, are not taking basic steps to plan for their futures, financially.
- Over-indebtedness does not affect a large proportion of the population, but those who are affected, are affected severely. An economic downturn may see more people in financial difficulties.
- Inadvertently, people are taking financial risks. This is due to the UK population's inability to shop around and choose financial products that meet their needs.
- Young people are typically less financially capable than their elders, even allowing for generally lower levels of income and experience in dealing with financial institutions.

As a result of this study, the FSA believes that the UK population could face severe personal financial issues unless steps are taken to improve financial capability.

¹ HMRC, Financial Capability: the Government's long-term approach, January 2007

² Financial Services Authority, Financial capability in the UK: Establishing a baseline, March 2006

“There is ample evidence to suggest that the *ifs* course has had an impact in developing students’ financial identities in various ways.”

1. Implications for a financial education curriculum

- There is evidence that CeFS, a specifically designated and substantial course in financial management can be effective in changing ways in which young people think about themselves in relation to personal financial management and their active participation in organising their financial lives. There is evidence that a realistic personal financial management orientated curriculum can engender a ‘financially capable-consumer aware’ approach to personal financial management, which leads to a firm belief among students that careful personal financial management should be a part of their life.
- There is evidence that personal financial management education is effective when provided at a time when young people are experiencing the transition towards greater ‘life’ independence and adulthood.

2. Self-reported changes in learning and participation in personal financial management

- Approximately 95% of students reported understanding money matters better after taking the CeFS course. High levels of knowledge and awareness continued to be reported at the 10-month and 22-month follow-up period.
- Most students (approximately 80%) started the CeFS course feeling confident in their ability to manage their own finances. This is line with OECD (2005) and FSA (2006) findings that show most people as feeling confident regarding their money management. By the end of the CeFS course confidence in ability to manage their own finances had risen to just over 90%, a rise of over 10%. These high levels of confidence continued to rise slightly after 10 and 22 months.

- 10 months after course completion:
 - approximately 87% of students reported that the course enabled them to make more sensible choices about spending their money;
 - over 90% of students agreed with the benefits of understanding their own money issues;
 - nearly 95% of students stated that they were able to manage their finances as a result of taking the course.
- After the course:
 - approximately 80% of students stated that achieving their aspirations was related to income and educational achievements;
 - students recognised that their choice of financial products impacted significantly on their lives (over 80%);
 - typically there was a statistically significant increase in the number of financial products owned by the students;
 - there was a decrease in the proportion of students who reported that they owned one or more credit cards (from 18.5 to 14.2%).

3. Impact of the course

Our research shows that personal financial management increased during the period of study of the *ifs* courses. This trend increased throughout the period of study and remained steady or increased after studying CeFS or Dip FS. Specific changes in personal financial behaviour included:

- an increase in the number of different kinds of financial products owned;
- using more banking facilities and to a greater extent, eg asking questions of bank staff;
- an increased awareness about the value of money and a change in spending/saving habits;
- a move from not planning ahead to planning ahead;
- a move from not keeping track of money to keeping track of money.

Knowledge and awareness of financial products and options grew during the study of an *ifs* course and continued to grow afterwards. Students often reported having low levels of awareness about financial products and planning prior to starting and at the beginning of the course. By the end, students reported high levels of financial awareness.

For example students were:

- more likely to research financial products/options;
- more aware of a wide range of products and how these fit with the life cycle;
- comfortable at applying knowledge about finance, eg swapping to 'better' financial products.

4. Key findings

Our study shows that students who study CeFS and Dip FS:

- shift from living in the moment to looking to the future. Students research financial products/options and become aware of a wide range of financial products and how these fit with the life cycle;
- have a higher awareness of financial products and financial planning;
- have increased confidence and participation with regards to personal financial management. Confidence in personal management increased 22 months after completion of the courses;
- are more likely to keep track of money. Students plan ahead, value money, increase saving and have greater confidence in using high street banking facilities.

5. Approaches to financial education for young people

Teaching and learning in schools

Currently, there is no standard provision of financial education in UK schools. Furthermore, none of the existing coverage of personal finance is standalone; it is incorporated into existing diverse subjects such as PSHEE, Enterprise Education or Citizenship. However, our research supports research from others (eg Tennyson and Nguyen, 2001³, Ofsted 2008), which suggests this approach is less effective than a standalone subject. Following visits made by inspectors between April 2006 and April 2007 to schools and colleges Ofsted reported that:

accredited courses that lead to a formal education inspired a more coherent curriculum and sharper focus on the learning outcomes students were expected to achieve.

Implications for financial education curriculum

Evidence from our study shows that a specifically designated and substantial standalone course where students know the aim is to look at financial management can be effective in improving personal financial management and participation. A personal financial management orientated curriculum can engender a capable and consumer-aware approach to financial management.

Timing is important; financial education is effective when provided at a time when young people are experiencing a marked transition towards greater 'life' independence and adulthood. Research shows that the CeFS course is effective in provoking financial management for life.

Towards effective financial education

CeFS and Dip FS courses are underpinned by a 'realistic education' philosophy; participating in 'high street' banking is encouraged by the curriculum. Knowledge and awareness, perceived self-efficacy and practice are connected within the curriculum design. Inherent within the curriculum is the notion that knowledge is to be used, hence considerable emphasis is placed on personal financial management planning – the curriculum is about use of financial knowledge and awareness. The connection between knowledge and practice is critical in increasing financial capability through financial education.

³ Tennyson, S. & Nguyen, C. (2001), State curriculum mandates and student knowledge of personal finance
The Journal of Consumer Affairs, 35 (2), 241–262.

The views of young people

Our research shows that students are able to relate what they learn in CeFS and Dip FS to real life and in some cases put theory into practice. Nick, a CeFS student, said:

You hear finance and you think of numbers, but it's not, it's more to do with budgeting, planning and forecasting and everything and that's why I enjoy it, because it's different. It teaches you about life.

Another CeFS student, James, said:

What you learned [when studying CeFS] was the sort of knowledge people need to know, because when everyone's growing up, they don't understand what to do with their money, what they're actually doing with their money. [Young people] think of banks as big places you don't have to go in. Banks are the kind of places you need to understand before you can use them.

As students progressed through **ifs** qualifications they were better able to understand personal financial products. This instilled confidence in students that enabled them to begin making informed choices with regards to financial products. Many were able to take this a stage further and think of financial products in terms of life cycle and planning for the future. Marcus, a CeFS student, said:

[The CeFS course has] made me think about pensions. I've learned it's better to get a pension early on, in your early 20s and build it up. The course has taught us things like that about the future.

“This impact resulted in an increase of knowledge and awareness, an improvement in financial behaviour ... helping them picture their future financial life and plan, and helping them move towards greater independence.”



Table 1: Trend shifts in students' personal financial management

Facets of personal financial management identities ⁴	Trend shifts in 'financial' identity and participation ⁵
<p>• Knowledge and awareness</p> <p>This grew during the course, together with awareness of available resources for future needs.</p> <p>Students often reported having a lower level of awareness about financial products and planning at the beginning of, and prior to, the course. By the end of the course students reported high levels of awareness. Two years on, students reported retaining less detailed knowledge, but still had a raised awareness and the know-how to be able to find out and research products.</p>	<ul style="list-style-type: none"> • From living in the moment to looking to the future • Researching into financial products/options • Being aware of a wide range of products and how these fit with the life cycle.
<p>• Confidence with regard to personal financial management</p> <p>This remains high and steady during and after the course. Confidence in personal financial management had continued to improve 22 months after completion.</p>	<ul style="list-style-type: none"> • From lesser to greater perceived financial self- efficacy • Greater confidence to go to the bank and discuss financial options with others • Knowing better how to research financial products/options • A shift for some to give advice to others, eg to family members or friends
<p>• Personal financial 'high street' practices</p> <p>Participation in personal financial management increased during the course and either remained steady or continued to increase afterwards⁶.</p>	<ul style="list-style-type: none"> • From knowing and talking about finance to doing (application of knowledge), eg buying or swapping to 'better' financial products. • Increase in the number of different kinds of financial products owned • To use more high street banking facilities to a greater extent, eg talking to bank staff • Changing the way students valued money and their spending/saving habits • From not keeping track of money to keeping track of money • For some, from not planning ahead to planning ahead
<p>• Education and career aspirations</p> <p>The trend shift during the course was towards a desire to specialise in finance amongst those students who were already 'business orientated'.</p> <p>Others sometimes decide to specialise in 'finance' ...</p>	<ul style="list-style-type: none"> • For some, from a general to professional interest • CeFS supports aspirations in business, accounting and/or finance careers
<p>• Self-reported course impact</p> <p>On average, students report high impact 10 months and 22 months following course completion.</p>	<ul style="list-style-type: none"> • a trend towards greater consumer awareness sometimes in conjunction with other ways of being (ie sometimes interweaved within entrepreneur or debt-averse identities)

⁴ Based on the questionnaire survey design (see Annex for details about data points and sampling).

⁵ Triangulation with analysis of the longitudinal interviews.

⁶ Note this increase in participation, as captured in select survey items, was not statistically significant.

FINANCIAL STUDIES

HEALTH AND SAFETY LAW

Responsible
University
Education

Financial
Literacy

What
is
Money?

What
is
Money?

What
is
Money?

What
is
Money?

What
is
Money?

What
is
Money?





The **ifs** School of Finance is a registered charity, incorporated by Royal Charter, and one of the leading bodies for the provision of financial education and lifelong career support to both the financial services industry and the wider community.

Our vision is to be recognised as a world-class school of finance, known for its quality and innovative approach as the provider of choice for financial learning, both as an essential life skill and for a career in the financial services sector.

Through this, the **ifs** School of Finance will contribute to the development of both a well-educated and skilled financial services industry, able to meet the needs of the public at large, and more financially aware and literate consumers who are able to take control of their own financial futures.

ifs School of Finance

ifs House, 4-9 Burgate Lane,
Canterbury, Kent CT1 2XJ
United Kingdom

T +44 (0) 1227 818609
F +44 (0) 1227 784331/786030
E customerservices@ifsllearning.ac.uk
W www.ifsllearning.ac.uk

ifs School of Finance

8th Floor, Peninsular House
36 Monument Street, London EC3R 8LJ
United Kingdom

+44 (0) 20 7444 7111
+44 (0) 20 7444 7115