UK Sustainable Investment and Finance Association

22 January 2016

Stuart Burt
APPG Financial Education for Young People
House of Commons
London
SW1A 0AA

Dear Mr Burt,

APPG FEYP: Call for Evidence

Thank you for the opportunity to feed-in to the All Party Parliamentary Group on Financial Education for Young People's call for input. While we cannot comment in depth on the impact and effectiveness of financial education in schools, we do want to highlight why proper financial education at school is more important than ever.

The UK Sustainable Investment and Finance Association (UKSIF) is the membership network responsible for sustainable and responsible financial services in the UK. We promote and support responsible investment and other forms of finance that advance sustainable economic development, enhance quality of life and safeguard the environment. We also seek to ensure that individual and institutional investors can reflect their values in their investments. UKSIF was created in 1991 to bring together the different strands of sustainable and responsible finance nationally and to act as a voice for the industry. UKSIF has around 240 members and affiliates which include financial advisers, institutional and retail fund managers, pension funds, banks, research providers, consultants and NGOs. For more information about UKSIF, please visit www.uksif.org.

Better financial education at schools is crucial. We live in an age where integration of personal finances in everyday life is increasingly essential, but means for the unwary the risk of financial exclusion is equally more prominent than ever. Government reforms, technological advances and the need to tackle both societal and sector based inequality (less than 10% of UK financial advisers are women) means the Government must intervene in the national curriculum to prepare people for life with greater freedom over their finances than any generation before. For UKSIF there are five key reasons to improve the quality and quantity of financial education at schools:

- Evolution of the finance sector and incorporation of investors' values;
- Driving demand for a more sustainable financial system;
- Encouraging people to save more for their retirement;
- Implementation of Government policies such as automatic enrolment into pensions;
- Stopping people from falling into debt.

In assessing the need for better financial education in schools, a major consideration for policy makers should be the evolving nature of the financial services sector. We expect developments in the personal savings market including automatic enrolment and pensions freedoms to lead to fundamental change in the sector and demand for new products. During Good Money Week 2015[1], UKSIF commissioned polling showed that 54% of people wanted their investments to have a

[1] http://goodmoneyweek.com/

"positive difference" as well as making money. Other research commissioned by Standard Life Investments showed that 58% of 18-24 year olds wanted to invest in companies that achieve positive social outcomes, while 51% of people in the same category wanted to invest in ways that minimise environmental damage. Increases in longevity mean we are at the start of a transition to defined-contribution (DC) pension schemes, and as the DC market develops further these views should be taken into account to boost savings. These views will also eventually be reflected in the types of products offered. Consumers are looking to invest according to their principles, ethics and beliefs. The rise of social media over the past decade has meant more focus on the role of these values in the financial system[2]. Shared values are easier to gauge and gain momentum through platforms such as Twitter and Facebook and we have started to see them having an impact on companies and investors. We've entered an age of constant scrutiny and accountability: we now see two way dialogue with businesses, not the one way monologues of the past.

Linked to this is financial education as a driver of sustainability. People can invest in-line with their values and can have a real impact on the companies in which they are invested, but for this to happen more needs to be done in terms of financial education – particularly around the investment chain. We want more retail investors challenging their financial advisers and more pension scheme members challenging their pension funds and fund managers on the companies in which they are ultimately invested in. The long-term effect of encouraging better and more responsible investment intermediaries and thus more sustainable capital markets will not only lead to direct benefits for society and the environment, it would also result in enhanced corporate value.

The Government has rightly spoken about the need to incentivise saving and to ensure the pensions system is sustainable. At last year's budget it announced a consultation into pensions tax relief to encourage people to save. UKSIF did not agree with the proposal suggested at the budget i.e. to move from a system of exempt-exempt-taxed to one of taxed-exempt-exempt (like ISAs), due to the problems it would cause particularly in defined-benefit (DB) schemes and the complexity of the resulting system, however we did agree that more people should be saving more money from a younger age. In the consultation it was apparent that the Government is under a fundamental misapprehension that changing financial rules, such as those relating to tax relief on pension payments will lead to significant changes in the behaviours of those individuals they are trying to incentivise – people who are saving too little or not at all. On the contrary, those individuals are not saving for the simple reason that they are not engaged with their pensions, or finances more generally. Currently, better education would be a more significant contribution to individual's pension pots than short-term changes to tax relief.

Automatic enrolment (AE) has meant that effective financial education within school curriculums is now essential: by 2018 more young people will have investments than at any other time previously. AE means employers are now required to enrol workers earning over £10,000 and over the age of 22 into a workplace pension and pay at least a minimum level of contributions towards that pension. DWP figures[3] show that there are 10 million people in the eligible target group for AE. Of these, 90%

[2] Standard Life Investments research into social media users and investment, available at http://ukgroup.standardlife.com/content/news/articles/2015/231015SocialMediaAndYourValues.xml
[3] DWP, Workplace pensions: Update of analysis on Automatic Enrolment, available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/460867/workplace-pensions-update-analysis-auto-enrolment.pdf

are estimated to be newly saving or saving more by 2018. One important factor is that under the new system workers are automatically enrolled into DC schemes. DC schemes are different from DB schemes in a variety of ways, but crucially there are no guarantees as in DB schemes which means all the risks to investment are borne by the saver. The increase in the number of young people with investments and the risk attached to those investments are two hugely significant reasons that mean financial education should be made a priority in schools.

There are many consumers in the UK with financial needs who do not seek advice. This may be because they are unaware it exists or because they are not sufficiently engaged in their own financial affairs – as we have already stated these would not be issues this consumer group was properly educated about finance. For these individuals, many of whom will be young, much more should be done through financial education to discourage them from falling into debt. It is estimated that by 2020 UK households will hold up to £350 billion of unsecured debt. Debts for 15-24 year olds grew by 200% between 2006 and 2012. This is ten times faster than the average debts of the wider population.[4] This group has complex financial needs that are not being met and for which they are not seeking advice. More financial education is essential to help reduce the amount of personal debt for this group, and in the UK more generally.

A recent report by The Children's Society[5] highlights that while financial education in secondary school is a welcome first step, evidence points to children's attitudes towards money being engrained at a younger age. The report concludes that this would lead to two main positive effects:

- It would raise the aspiration of children to save for the future which promotes a healthy and sustainable attitude to financial management
- It can help to address children's exposure to TV advertising for credit and the potential for this to lead to taking on high risk debts.

We would also highlight the key driver towards a more sustainable financial system through the integration of values in personal finance choices as another key aspect to encouraging financial education as early as possible.

We trust the above information is clear, but if you require any information on any of the points raised please do not hesitate to contact me at fergus.moffatt@uksif.org.

Yours sincerely,

Simon Howard
Chief Executive
UK Sustainable Investment and Finance Association (UKSIF)

[4] Citizens Advice, *Unsecured and Insecure?,* 2015, available at https://prezi.com/oqlbimt__2sn/unsecured-and-insecure/
[5] *Supporting young savers: The case for savings clubs in schools*, available at http://static1.squarespace.com/static/5406dac3e4b02d18666bcb68/t/5463fc1fe4b020c70347dab5/1415838751079/Savings+Club+report+FINAL2.pdf