Preparing for the Modern World; Why Financial Education Matters

This was the title of the final David Hume Institute seminar of the spring/summer 2007 series which comprised a keynote address by Financial Services Authority Deputy Chairman Dame Deirdre Hutton; short contributions from a panel of experts; and a discussion session involving one of the largest audiences of the series.

The seminar was the focal point of an event sponsored by the Stewart Ivory Foundation (SIF) and was chaired by its Deputy Chairman, Hamish Buchan. Hamish explained that the event had a very practical significance to SIF, which has financed a cost effective programme of financial education in Scottish schools and wants to see it continue within a coherent overall framework of financial education when the SIF reaches the end of its 8 year life in 2008. In addition to the seminar, a position paper by Jim Lally (of the Scottish Centre for Financial Education) was made available in advance to all participants. Discussion continued over dinner under the Chatham House rule, involving the speaker and panel members and other invited guests. A report by the economics' journalist, Peter Jones, who attended proceedings as rapporteur, will be published by the DHI in due course, including on this website.

In her address, Dame Deirdre Hutton briefly explained that it is a statutory obligation on the FSA to concern itself with improving the financial capability of consumers of financial services. She drew particular attention to the profound human misery that could result from bad financial decisions made through lack of sufficient understanding by consumers; or from failure to make provision for financial pressures at key life stages. Today's consumers, exposed to active marketing of financial products and having to make financial provision for their own retirement needed greater financial capability than their parents' generation, yet their level of financial competence was worryingly low. Against this background, FSA engaged with a wide array of partners in initiatives to improve the financial capability of consumers, while holding firmly to the view that providing financial education at school was part of Government's overall responsibility for funding school education.

In addition, as regulator FSA looked to retail financial businesses to help create more competent consumers, to provide understandable information and impartial advice and to treat customers fairly. Dame Deirdre closed by identifying key challenges for financial education policy – how to move from a series of initiatives and pilot schemes to comprehensive national provision; and how to measure the impact of the education on consumers' behaviour. In Dame Deirdre's memorable phrase: 'It's not enough that those who get this education enjoy it, it also has to do them good'.

Following opening contributions from the panel of experts in teaching, banking consumer protection and fair trading, discussion was thrown open to the audience. Among the points that struck this listener were the following.

There is a powerful social rationale for financial education, in view of the misery that can result from bad financial decisions. There is also a strong economic rationale since well informed consumers are an essential part of making markets work well, yet the gulf of knowledge and information as between providers and consumers of financial services is huge.

The involvement of banks, insurance companies etc in running financial education projects in schools with their own staff caused anxiety to several audience members, who disliked the way in which young people in particular are bombarded with financial offers and suspected that some firms used their entry into schools to create more selling opportunities. The impression from panel members with teaching and consumer interests was that in general these problems had been avoided and that safeguards were in place. For banks, their involvement in financial education was described as, in effect, enlightened self interest - more confident and capable customers should mean more products sold to satisfied customers and fewer hard cases that lead to bad publicity and bad debts for the banking sector. However Dame Deirdre and other participants in the seminar emphasised the need for action on improving consumers' financial capability to be accompanied by clear, fair and comprehensible literature from companies, geared to what consumers are likely to understand.

For the FSA and others it is important to tackle financial education on a broader front than the education of schoolchildren. Lots of different groups needed financial know-how relating to specific stages of transition in their lives - leaving home, starting university, starting work, having a first child, marriage break-up, divorce or widow(er)hood, retirement. Young people not in education, work or training, and those leaving care, were in particular need of guidance on money matters.

Financial education should not be limited to budgeting and an understanding of the products of the financial sector – it was equally important to improve education in the workings of public finance, tax, and benefits. One speaker made a plea for children to be given an understanding from an early age of the basics of economics – where money comes from. A plea to deliver basic numeracy and literacy as prerequisites for financial capability won approval. There was also support for the proposition that arithmetic be brought (back) to the Standard Grade exams system

It was important to note that learning was a two way street. Financial services staff could learn from meeting people forced to budget on very small incomes, who had to exercise much greater financial discipline than the more comfortably off. Equally they can bring back to their colleagues a better understanding of the low level of public understanding of many financial products.

Those in the panel and audience from an educational background emphasised that the overcrowded school curriculum is a major obstacle to securing the nationwide provision of financial education in schools that many wanted to see. Schools and are faced with dozens of new initiatives and cannot pursue them all with equal vigour, so implementation depends on the personal enthusiasm of individual head teachers and their staff.

Summing up, Hamish Buchan, noted the wide agreement, from so many different perspectives, on the importance of financial education and saw hope in this that solutions would be found. Jeremy Peat, concluding the seminar for the David Hume Institute, invited those present to send in any additional thoughts and views which would be passed on to Peter Jones, the rapporteur.

A number of the above themes were taken further in the dinner for invited guests. The following were among the further points of interest that arose.

A participant quoted a fascinating survey finding. In a word association test, British people were likely to associate finance with fear whereas in other countries it was more likely to be associated with opportunity. Our rapporteur, drawing on a separate conversation, invited participants to reflect on whether the purpose of financial education was to prevent people from becoming casualties through bad financial decisions, or whether it was to enable people, whatever their financial position, to understand how to use finance to realise their potential in life. The answer from an MSP's perspective was that the extent of the social difficulties, caused by money problems that they encountered in their constituencies made it inevitable that preventing and dealing with casualties was top of mind. But for this participant and a number of others the more positive statement of purpose was attractive. (By coincidence The Times of 27 June 07 includes the following quotation from Caroline Flint MP, made in the context of health education but equally valid for financial education: *"Knowledge is power and knowing how to make the best choices for yourself is how you get the best out of life*")

There was much discussion about the practicalities of extending the provision of financial education in schools. The school curriculum is currently under review providing an opportunity to advocate a higher profile for financial education. Some of the issues touched on - without any collective signing up to conclusions at this stage – included the following: -

- What is the right age to start teaching financial understanding ?– it was persuasively answered that, so long as the education deals with choices facing or directly affecting the child, this can start in the early stages of primary school.
- What should be taught by teachers as part of the curriculum - and which subject teachers were best placed to do so - and should sessions run by outsiders such as banks and the like be a lasting feature of the system? On the former it was generally felt that finance – as distinct from numeracy - should not be labelled as the province of the maths department; some felt there was a synergy with enterprise education or with other life and social skills teaching. On the latter, the educators present argued for retaining sessions involving bank staff, as students responded well to these.
- Should understanding finance be an examinable subject? There were pros and cons – if so what should make way for it; and if not what chance was there of it getting enough attention, given the small amount of teaching time devoted to social and life skills?

The evening closed without clear conclusions but having engendered a great deal of interest among those who have the capacity to make things happen. This participant for one looks forward with keen interest to Peter Jones' report.

Eileen Mackay
David Hume Institute trustee.

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