



small investment:

why financial businesses need to re-think
how they communicate with children

“I am delighted that Paperhorse has taken the initiative in putting this paper together. With interest rates rising, and the economic outlook becoming more uncertain, the importance of controlling debt levels and boosting savings is becoming even greater.

What has also increased in importance is the need on the part of consumers to understand the implications of over-indebtedness and insufficient savings. The BSA shares the view of Paperhorse that the right set of solutions involves financial institutions, other businesses, government, schools and regulators working together to educate children, who are having to face a series of daunting financial decisions much earlier in their lives than ever used to be the case. To get the message through to children all these groups are going to have to become more innovative and inventive, making their messages seem relevant not only today, but also over time as children grow up and face those difficult decisions.

Building Societies agree with Paperhorse that little can be achieved without proper communication between all the interested parties. This report very much helps that communication process.”

Adrian Coles
Director-General, Building Societies Association

In just a few decades, attitudes in the UK towards finance and debt have changed dramatically. We have moved from a post-war generation, familiar with economy and thrift, to a cash-on-demand society, where traditional concepts of saving and making-do have given way to storecards and deferred payment. Britons today are increasingly encouraged to live beyond their means - if they wish to live at an 'acceptable' level.

The social consequences of this change are significant. According to Citizens Advice, which handled 1.4 million debt enquiries in 2005/6¹, an increasing number of people are 'condemned to a 'lifetime of poverty' burdened by debt, with many unable even to afford the fees payable for declaring bankruptcy.' Recently, the Consumer Credit Counselling Service reported signs of 'growing financial stress' amongst adults in the UK², who are reportedly borrowing an additional £318m every day.³

While most older people continue to prosper and have a higher average level of savings, those under 55 have a desire to consume greater than their inclination to save.

Students are leaving college and university with debt before they have even begun to accumulate financial assets. Teenagers are bombarded with advertising messages encouraging them to spend.

Britain's children are now being raised in a climate where nearly half of all UK families need two or more salaries to cover the bills and live at this new level⁴, and UK households are living with an average of £10,000 of unsecured debt.

While the introduction of Child Trust Funds is welcomed by all, it seems inevitable, given the current context, that many of the next generation are even more likely to repeat the same cycle.

This paper explores the issues, the potential solutions, and how government and financial services businesses can communicate financial building blocks more effectively to those future savers, investors, spenders and borrowers.

1 'Citizens Advice Bureaux report steep rise in debt problem'
Citizens Advice Nov 2006

2 Financial stress 'worst in north' BBC report Feb 2007

3 Credit Action Debt Facts Credit Action May 2007

4 'Money worries forcing 3.5 million mums back to work'
Scottish Widows survey May 2007

What is the problem?

Despite UK personal debt continuing to spiral upwards banks, building societies and retailers continue to compete aggressively to lend people more and more.

Personal savings as a proportion of disposable income have declined from 12% to 5% of personal disposable income over the last 10 years. The volume of unsecured debt is increasing.⁵

Bankruptcies are on the increase and the prospects for repossessions are concerning government and lenders with the likelihood of further and imminent interest rate rises.

According to recent BSA research, 30% of non-savers said that no specific factor could persuade them to start saving.⁶

Students - a group which contains many of the next generation's influencers, high earners and key decision makers - are leaving university and college with unprecedented levels of debt. Many young adults are no longer able to distinguish between one level of debt and another. Consequently they carry

on making reckless spending decisions or failing to make decisions about savings or retirement - hardly conducive to a fully-functioning economy and society.

While the industry is more sophisticated than ever, there is no reason for complacency. Though the problem itself is not new, the scale of it is, and requires a consolidated approach from:

Government, which has a responsibility for regulation and education in order to minimise the social cost of financial mismanagement,

Banks, building societies and other financial services businesses which have a vested interest in ensuring that the public is able to handle personal finances and that the financial services sector acts responsibly,

Corporate UK for whom employees in financial difficulty represent a potential hazard - being less focused on their work, more likely to commit fraud and ready to moonlight with more than one job.

Each of these entities must play its part.

The Social Challenges

Many of Britain's adults are poor managers of their personal debts and finances. This is evidenced by the scale of personal debt, the paucity of savings held by much of the population and the increasing inadequacy of pension provision. While some of this is no doubt driven by genuine financial pressures, many of these problems are of our own making.

Research shows that more disadvantaged households and their children tend to understand and be better prepared to manage these pressures than better-off

households. However, their lack of knowledge about **financial options** increases their disadvantage further, relative to better-off households.⁷

But how can the average person be expected even to vaguely understand the complexity of the products available, their interaction and the small print that comes with the package? It may be partly the result of the lack of teaching by school, parents or financial institutions, but it is often not helped by inadequate or overly-complicated marketing material

5 Office for National Statistics 2006

6 'The Individual Savings Decision': report by Building Societies Association February 2007

7 Centre for Research in Social Policy, Loughborough University Report published by Financial Services Authority Nov 2000

distributed by the companies which offer such products.

Moreover, many of those already with unsecured debt are enticed by advertising which lures them into purchasing 'more stuff, now!' - further reducing the ability to save and indeed deferring the point at which saving might begin. Many have not learnt to actively manage or cannot interpret their financial risks and do not anticipate the possibility of future events such as job loss, retirement, interest rate rises, divorce, children etc.

For example it is now so easy to insure our mortgage against job loss that we fail to consider that a more cost-effective option might be to live within our means and save for that 'rainy day'. But we are unable to evaluate or manage the options. We are more likely to consider whether or not we can afford the insurance.

Hidden Costs

While this backdrop represents wonderful news, in the short term, for lenders and retailers selling a confusing plethora of financial products, it is not necessarily good news for society and the economy as a whole.

Solutions - existing and unfulfilled

What is the answer? Stop lending? Lend more responsibly? Lenders will argue that they are already acting responsibly (albeit because of tighter regulation) and handle debt selection and management with increasing sophistication. Yet market expectations are that bad debt provisions a year from now will be more than double current levels. And the statistics hide the disparities between old and young, advantaged and disadvantaged.

The fallout from debt and from poor management of personal finance is significant, and can affect children in a variety of ways. Consider for instance:

- **stress** which affects both work-based productivity and home life,
- **relationship breakdown**, affecting home, marriages and children,
- **increased hours spent working**, resulting in 'time-poor' parents, and therefore the need for **increased childcare**, adding a regular cost to the already-stretched family budget. This also means teachers, childminders and nursery leaders will increasingly be assuming a parent's role.

One could argue that adults should be more grown up and learn to look after themselves. True, but it is also widely acknowledged that businesses have a corporate social responsibility beyond simply making profits.

Now, more than ever, the UK has need of CEOs who take that responsibility seriously. Sir Mark Moody-Stuart, Chairman of Anglo American plc recently wrote 'If society is in trouble, it's our problem too - business is involved whether it likes it or not'.⁸

While making further short-term investments into improved marketing and more responsible lending may be difficult in a highly competitive marketplace, in the medium-term such a strategy brings a value-added dimension that should be attractive to consumers. There is also much that can be done to better equip borrowers, through improvements in financial education, and by providing clearer, more understandable material,

⁸ 'The business of Business... is Society' by Sir Mark Moody-Stuart, Chairman of Anglo American plc and Chairman of Business Action for Sustainable Development. Accountancy June 2007 issue

long before they select a package.

This does not address the unscrupulous lender - and government could do more to take loan sharks out of the equation.

Looking further ahead one of the most effective solutions must surely be to prepare children and teenagers, and to help a different mindset about personal finance evolve in the UK.

The impact of Child Trust Funds (CTFs) will not be felt for some time. Currently

one third of children in the UK do not have a savings account. This means that 3.7 million children are likely to start adulthood by 2021 with little or nothing to their name.⁹ Many parents are still ill-equipped to cope financially - and a younger generation is rapidly following in their footsteps. Even those children with CTFs will need to learn how to handle their assets and their financial future as much as the current generation.

Financially equipping children

Long-term problems require long range planning. One place to begin to address these issues is at child level. So what building blocks are needed to help a child become financially self-sufficient?

1: A financial survival pack

There are a number of key messages about money that need communicating, in a way which is understandable to a child. The first set have to do with day to day financial survival:

- *How do I budget and manage cash flows?*
- *How do I manage my finances?*
- *How do I find the best deal, which may not be the cheapest?*
- *How do I save up for that great deal, whilst considering factors such as price, quality, obsolescence, and fashion?*
- *How do I stop myself buying things I don't need? (Or in the words of the Building Societies Association 'Individual Savings Decision' report: 'How do I kick the consumption habit?')*
- *How do I see behind the advertising?*
- *How do I understand the small print, and what questions should I ask?*

Until people are equipped to survive it is virtually impossible for them to move on towards considering more complex options. What does a child do when spending their pocket money within a context of intense peer pressure?

2: Financial jargon-busting

Secondly, common misunderstandings must be addressed, and the veil lifted from the complexities of finance. Many organisations attempt this - indeed it is often their first action - but such mega-glossaries end up as impenetrable dictionaries, rather than shedding light. Fixed and variable rates, inflation, RPI, APR, drawings, insurance (a subject in its own right!), free, pensions, markets, risk, secured debt... such definitions become words out of context, inaccessible and irrelevant to children.

3: Support information

Thirdly, there should be ongoing guidance provided about some of the practical issues people regularly face:

- *what do I ask when I open a bank account?*
- *how much should I save?*
- *personal finance, business finance*

- *pocket money and piggy banks*
- *giving to charities*
- *gambling*
- *borrowing:*
 - what do lenders expect?*
 - what questions should I ask?*
 - how much should I borrow?*
 - what risks should I avoid?*

Any of the above can and should be provided in ways children can relate to: challenges, animations, interactive games, media for learning with their peers.

4: Children managing their own money

But again, knowledge without a context is worthless. A major shift is needed in how banks enable children to administer and access their own money safely, using their own online accounts, and by

How are these messages currently being communicated to children?

In the past ten years there has been a quantitative and qualitative improvement in providing resources for schools - books, games, exercises - for teachers and parents of both primary and secondary school students, which integrate teaching of financial issues with numeracy and PHSE within the curriculum.

Some financial institutions have tried to make their marketing more child-friendly, or developed **children's areas** on their websites. Too often these are hidden away, or so poorly promoted that there is little chance of a child visiting them. Even then, the experience on offer is generally inferior to what a child would find on the sites that they regularly frequent, so that the encounter is brief and there is no reason to re-visit.

providing an interface for dialogue.

- With increasing funds being managed on behalf of children, can there be an area representative or team with a remit for children?
- How can savings institutions engage in ongoing communication with children who have opened accounts or who have CTFs?
- What tools could be provided to give them practical experience - say an online cash flow forecaster they can apply to their own balances and schedule of deposits to examine different scenarios?
- What incentives are on offer to help them think differently about money - some savings institutions do offer or have offered some incentives for regular borrowing?

Such 'kid-zones' also miss the mark because the material is patronising or trite in its deployment. Web-based savings and child-focused accounts or products are still very difficult to find.

Unless an institution is ready to invest more promoting their website within the arenas that children are aware of and regularly frequent, the only reason that most kids will refer to a financial site is if directed to it by a teacher. So producing succinct **educational support material** of the right kind is critical.

There is very little effective **follow-up** of child savings account holders through those formative years. Every sales organisation keeps their client base informed, even banks! But a review of the printed

material that is currently available for children reveals that much of it is of poor quality, or written for an adult reader. Just

issuing an annual statement is inadequate! Both audiences can be engaged together and taken on further as customers.

In what ways can these areas be improved?

In an age of consumption, the availability of credit, disparity of wealth and self-interest it is a challenge to teach money matters to young people, particularly those from less well off households, and any initiative will require parents, teachers and business leaders working together.

Schools

Existing resources are good and are being backed heavily by major financial institutions and regulators such as the FSA, which has a wide variety of materials on its website, including games, simulations, role-plays and discussions as well as the more conventional worksheets.

Many banks and building societies are engaged in partnership and mentoring programmes with local schools but it is not possible to link up with every school in this way.

The government is consulting over adding an E (economics) to the PHSE curriculum at secondary school level. Whilst this is a positive step, the issues can be addressed much earlier.

This also assumes that teachers are equipped to teach about financial matters - the reality is that unless he or she has worked in business or has a natural aptitude for the subject, a teacher is as likely to be as confused about finance as anyone else. More training will be required and this is most likely to come from the financial services industry.

Businesses

Regulation requires reams of small print but it is possible, and necessary, that banks improve their marketing of financial products where children are to be the beneficiaries, so that parents and children are clear what they are getting. Child accounts should not be designed to just attract money for a short period but be for the long-term. Since it is estimated that over 45% of children retain a relationship with their 'childhood' building society into adulthood¹⁰, there are some significant benefits which can be gained from doing this.

This is yet more vital following the introduction of Child Trust Funds and the need to prepare for university and college costs. Free child and youth-orientated point-of-sale booklets or magazines at banks and building societies are still a rarity.

It is also essential for financial businesses to continue their communication as children move into secondary education and develop their understanding of finance. This could be in the form of e-zines or print magazines, or a club, to help children buy into the organisation.

Government

Central and local government has a clear responsibility through managing the curriculum, funding research and resources and through effecting laws and regulation to prevent abuse and mis-selling.

¹⁰ 'Children's Savings to 2021 and Beyond'
Building Societies Association May 2006

what next?

This issue is the responsibility of the whole financial services industry and not just of one particular bank, building society, retailer or IFA. Best practice and high standards will do more to address weaknesses in our behaviour than any amount of regulation.

Educational investment has improved but could go much further. Point-of-sale and post-sale material is of poor quality and needs much more investment.

If we believe in maximising the economic and social impact of the current generation then we must act now to improve our children's ability to manage money.

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Paperhorse is the UK's first values-led children's communications consultancy, dedicated to bridging the gap between corporates and a young audience.

We specialise in helping organisations get their messages across to children, parents, and those who work with them. Our new media awards include Yahoo!'s Site of the Year and Charity Site of the Year as well as a shortlisting for the prestigious One World Broadcasting Trust award.

Paperhorse is unique in that it is a hybrid of an educational consultancy and a creative agency - producing solid content but with a high level of child-appeal. The consultancy offers a broad range of services including web, print, consultancy, audit, multimedia, animation, branded character development and viral marketing - all child-focused.

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