Financial Capability Strategy for the UK

Children and young people

Summary

The Strategy's overall aim in this area is for children and young people to continuously build their financial capability, so that they are equipped to manage their money throughout their life and when they reach financial independence they can attain and sustain the highest level of financial wellbeing that their means allows. This will build on the excellent work already done to develop and support financial and entrepreneurial education in schools across the UK.

An adult's relationship with money is a direct consequence of what they have seen, experienced and learned throughout childhood and adolescence. More young adults are finding themselves in financial difficulties. 31% of 18 to 24 year olds are over-indebted.[1] Behavioural change and early intervention evidence provides insight on how to reverse this trend.

The evidence base for how to build financial capability throughout childhood and adolescence is still developing.

It points to shaping interventions around:

- How children and young people learn (through observation and experience).
- What they should learn (dependent on neurological development and relevance).
- When they learn (dependent on neurological development and relevance).
- Who they learn from (with a key role for parents alongside schools and other financial capability providers).

The key recommendations are:

Do more to equip and motivate parents and carers to teach their children about money:

> Identify, agree and extend use of **simple, key messages** about money for children of different ages.

> Work with financial education providers to design and promote opportunities for parents and children to build on financial education in schools and **learn more about money at home**.

> Work with organisations that provide early years care and family learning opportunities to develop and extend the availability of programmes that encourage parents and carers to **engage with their children around money from an early age.**

Ensure that children, regardless of their family situation, have the opportunity to learn about money outside the home.

> Work with organisations that teach and support children, young people and parents to **embed financial capability within their programmes.**

> The Government should consider the case for **adding financial education to the primary curriculum in England.**

Financial service and education providers should increase **opportunities for children and young people to manage their own money**. For example, providing bank products for children and young people with modern product features so that children can put their learning into practice.

Focused research to identify the most effective ways to **help young people feel proud to be good with money.**

This is your opportunity to shape the Financial Capability Strategy for the UK's approach to supporting children and young people:

Consultation questions 7: How far do you support the Strategy's aims for children and young people?

Consultation question 8: What is your view of the recommendations for action relating to children and young people? How could they be improved?

See the complete list of consultation questions for the Financial Capability Strategy for the UK at **fincap.org.uk**

Context

To be financially capable in adulthood, children need opportunities to develop skills and knowledge, gain experience and develop a good attitude towards money from a young age. This will prepare young people for the decisions and pressures that they will face as they transition into adulthood.

Some of the pressures faced by young people now are new or different to those experienced by past generations. For example, it will take some time to understand fully how experience of student loans will shape young people's attitudes to and future use of credit. There is increasing pressure in society to spend and there are some indications that this is felt particularly acutely by young people, many of whom will be invited to make use of unsecured credit as soon as they reach the age of 18.

The necessity of developing financial capability in children and young people is now higher on the national and international agenda. Internationally, more and more countries are participating in the Programme for International Student Assessment (PISA), which measures financial literacy levels. Financial education has been on the curriculum in Northern Ireland, Scotland and Wales for a number of years and has been added to the secondary curriculum in England from September 2014.[a] A number of organisations specialise in developing and promoting materials to support the teaching of financial capability and there has been an increasing focus in recent years on enterprise education. There are some programmes for children under 11, but most focus on 11-16 year-olds.

Delivering financial education in schools can provide relevant, challenging and engaging learning opportunities for all learners to link learning to life outside school; develop learners' problem-solving skills in a real-life context; encourage transference of skills and develop literacy and numeracy skills. Schools have an important opportunity to instil positive attitudes towards finance at an early age and to reach all sections of society, including many individuals who may later become far harder to reach, such as looked after children.

There is an excellent opportunity to build on the existing landscape of provision to add more programmes focused on financial attitudes and motivations in children and young people, more parenting and family support and an increased focus on younger children.

a. See Developing financially capable young people, Ofsted 2008, for a set of features of good practice for personal finance education.

Key facts and insights

- Many young people have financial difficulties. 31% of 18-24 year olds are over-indebted. The debt charity StepChange reports an 85% increase in 18-24 year-olds seeking help from 2010-2013 with average unsecured debts of £5,000
- Children are ready to learn basic things about money from the age of three.
- Attitudes and motivations to money are at least as important as skills and knowledge. Brain development means that many attitudes and habitual behaviours are set by the age of seven.
- Parents and carers provide the main opportunity to see, talk and learn about money on a daily basis. Schools and other organisations also provide important opportunities to learn.
- New skills and knowledge need to be relevant and applied quickly to be understood and retained.
- Consumer messaging and social influences encourage young people to spend rather than save, even if they do not have the money. Young people think it is boring to be good with money.
- Talking openly and honestly about money is still a taboo within the home, friends and society.
- There are a diversity of views within the sector about what needs to be achieved, how it should be measured and how findings should shape future interventions.

Financial capability: insights and analysis

The Financial Capability Framework below illustrates the strengths and limitations of children and young people's financial capability and helps explain how this may influence their future financial wellbeing.

FINANCIAL WELLBEING

MEANS

PRESSURES

FINANCIALLY CAPABLE BEHAVIOURS

Informed decisions

Tackle problem debt | Manage money well day-to-day | Build resilience | Prepare for life ahead

FINANCIAL CAPABILITY

POSITIVE INFLUENCES

NEGATIVE INFLUENCES

Enablers and Inhibitors

Connection
Ease | Accessibility

Internal Capability

Mindset
Attitudes | Motivation

Ability
Skills | Knowledge

Influences
Talking openly and honestly about money is still a taboo within the home, friends and society.

Influences
Parents and carers provide the main opportunity to see, talk and learn about money on a daily basis.

Connection
Children and young people need opportunities to learn about money outside the home, regardless of their family situation.

Influences
Consumer messaging and social influences encourage young people to spend rather than save, even if they do not have the money. Young people think it is boring to be good with money.

Skills and Knowledge
Children are ready to learn basic things about money from the age of three.

Attitudes and Motivation
Attitudes to money are important. Brain development means that many attitudes and habitual behaviours are set by the age of seven.

Ease and Accessibility
New skills and knowledge need to be relevant and applied quickly to be understood and retained.

The Financial Capability of the UK, (Money Advice Service, 2013). The Money Advice Service Debt Advice Review 2013/14, (Money Advice Service/Optimisa, 2014). Changing Household Budgets, (Money Advice Trust, 2014), The Money Advice Service Debt Advice Review 2013/14, (Money Advice Service/Optimisa, 2014) Debt and The Family: Debt and Household Incomes, (Financial Inclusion Centre, 2011).

The importance of starting young

There is a vital window of opportunity to shape the nation's financial capability. The brain is in a period of rapid development throughout childhood and adolescence, creating, strengthening, and discarding the connections which govern everything we do. This includes our attitude about, and our ability to manage our money. By the age of three, a child's brain has reached over 80% of its adult size and from this age, children are receptive to learning money skills.[5] To become financially capable, children need to observe, talk about and experience money on a regular basis.[6]

The mind is highly malleable in the early years, but as the brain matures, learning and behaviour that is not embedded is likely to be lost, whilst that which is firmly ingrained becomes habitual. Attitudes and habitual responses such as whether we avoid bills, or see money as an enabler are shaped by the age of seven.[7] Other aspects of financial capability, such as the ability to take personal responsibility for behaviour, are largely set by the age of 11.[8]

During adolescence, the brain reorganises itself and discards weakly developed connections. About 50% remain and that number will remain throughout adulthood.[9]

Key insight 1: Children are ready to learn basic things about money from age three

Key insight 2: Attitudes to money are important. Brain development means that many attitudes and habitual behaviours are largely fixed by the age of seven

Parents and carers play an important role

There is strong evidence that parents and carers are the key influence on financial capability because of their ability (or otherwise) to put insights into practice:

- Role-modelling financially capable behaviour;
- Providing money advice and talking openly to their children about money; and
- Providing the opportunity to experience money management.[10]

Money advice works best when delivered through a trusted messenger. Below the age of 7, children are most receptive to their parents' advice. Throughout adolescence, young people are still most likely to turn to their parents for advice.[11] (77% find their parents' advice most helpful).[12] US research shows that college students whose parents exhibit the positive parenting described above are the most financially capable. Talking about money with their parents was the most significant factor. This parental influence was found to be one-and-a-half times stronger than financial education, and twice as strong as the influence of peers.[13]

46%[14] of parents believe their children will manage their money the same way as they do. The numbers who do is likely to be far higher than this. Evidence shows parental cognitive ability, non-cognitive behaviour and educational aspirations are all inter-generationally transferred, as are some risky behaviours such as smoking and drinking.[15] There is some evidence that this is also the case for financial capability: 15-17 year olds who grew up in an environment where the family struggled to keep up with bills or save for emergency expenses were more likely to demonstrate low financial capability.[16] Children are innate observational learners who learn through imitation, so this finding is likely to be replicated in further studies.[17]

Parenting style also affects more attitudinal elements of financial capability. Research shows more neglectful environments can lead to poorly developed self-confidence; more indulgent parenting can lead to weakly developed self-control.[18]

Key insight 3: Parents and carers provide the main opportunity to see, talk and experience money on a daily basis

Key insight 4: Children and young people who cannot rely on their parents and carers to provide this role need other opportunities to learn

> **"If my mum told me that as soon as I get money I should spend it, I'd probably trust my mum more than I would trust school, because school is basically random people I've known for two years."**
>
> Source: 15 year old. Money Lives, Money Advice Service 2014

New learning needs to be relevant in order to be retained; and experienced to be understood

Attitudinal interventions need to start early but other aspects of financial capability learning work better on the cusp of adulthood. Traditionally, financial education has focused on equipping young people with skills and knowledge. Whilst this remains important, we now know that skills and knowledge are only retained for a short period of time unless they are put into action. Evidence shows that if the learning of one hour's worth of financial literacy education is not put into practice within 8 months, it is lost. Whereas if that one hour is used within the month, it is just as effective as twelve hours of education applied after 10 months' time. After 20-months, there is no evidence of any interventions impacting financial behaviour, yet financial education often teaches 14-16 year-olds about adult decisions they need to take years in advance.[19]

A key way to make learning relevant is for children and young people to experience managing their own money[20] with incremental increases in responsibility as they grow older.[21] However parents can view money as an adult activity with associated adult problems, from which their child should be shielded. Whilst there are some opportunities to experience money management in school – for example, through entrepreneurial learning or school savings schemes – these are not widespread.

Pocket money is a simple way to give children the opportunity to learn through experience, but is not currently used as effectively as it could be. Most 15 year olds receive pocket money, but only half receive it in a set, regular fashion with clear parameters over what it will cover.[22] Many young people can continue to be financially dependent on their parents when they leave home with some having the expectation that parents will provide on-going and/or ad hoc financial support.

Children now grow up in a digital world where money is experienced very differently to the previous generation – 57% of 8–11 year olds have either downloaded an app or had one downloaded for them.[23] But whilst products have changed for their parents, and are starting to change for children and young people, use of newer features is low – 12% of 15-17 year olds check their current account balance through an app, 30% online on their bank's website.[24]

The transition to adulthood often marks the first time young people have to manage their own money with any real responsibility and consequences attached.[24] This lack of experience means basic mistakes are not made in a safe home environment, but where the consequences are serious and potentially long-lasting. Increasing engagement with their own money, through parents and carers setting and sticking to money guidelines and consequences, and through the use of products with elements of adult features, could help prepare children and young people for responsible adult money management.

Key insight 5: New skills and knowledge need to be relevant and applied quickly to be understood and retained

> **"Getting that letter when I turned 18, saying I was eligible for a credit card was amazing! I said yes to it straight away – all I could think about was shopping! It felt so grown up."**
>
> 24 year old, London
> Source: It's time to talk: Young People and Money Regrets
> (Money Advice Service, forthcoming)

Money is not talked about openly and honestly

Qualitative research shows that many parents do not think it appropriate to talk to their children about money and how they manage it. As a result, children are not exposed to money management strategies. The desire to protect children from the adult world continues into adolescence, and silence can be compounded by young people's quest for independence. Spending money is seen as vital to social participation and a key way both to align and to differentiate oneself from others. Although quantitative research shows that 81% of 15-17 year olds say they are happy to talk about money with their friends and family,[26] qualitative research suggests that their conversations rarely go deeper than talk of 'being broke'.[27] However, 'being broke' frequently doesn't align with spending habits. Spending money they don't have is considered normal, while to want to behave otherwise is socially unacceptable.[28]

> **"You don't want to talk about money too much with children"**
>
> Source: Mother of 15 year old. Money Lives , The Money Advice Service 2014

Adolescents are particularly vulnerable to the effects of social norms – as independence is sought, parental influence reduces and the desire to be like their peers takes its place.[29] Peer conformity is strongly associated with more risky behaviours such as smoking, drinking, criminal behaviour.[30] What drives young people to behave in the same way as their peers is likely to be the same with money.

Qualitative research shows 16-21 year-olds frequently find it difficult to identify what good financial capability looks like. Instead, they describe a set of undesirable personality traits (boring, tight, dull) which cannot be changed, rather than a set of behaviours anyone can develop.[31]

Addressing social norms will be challenging. There is the potential for change through interventions, which reframe financial capability and responsible money management as desirable traits,[32] and interventions which make open money conversations[33] a natural part of life.[34]

Key insight 6: Consumer messaging and social influences encourage young people to spend rather than save, even if they do not have the money. Young people think it is boring to be good with money

Case study: Sarah

Sarah is 15 and receives £10 in pocket money each week from her mum.

Every week, she spends £2.50 of this money on a pair of white plimsolls from Primark and discards the previous week's pair as the fashion is to have pristine white shoes – her friends do the same.

The rest is spent on meals in KFC with her friends and sweets. She never has any money left over and when she receives one-off sums she spends a significant amount of this on plimsolls.

Source: Money Lives, The Money Advice Service 2014

Key insight 7: Talking openly and honestly about money is still a taboo within the home, friends and society

Creating and using evidence on what works

It is only possible to test without doubt whether someone has developed good financial capability at the stage that they become independent and are faced with the financial decisions (and consequences) of the adult world.

Existing evaluation has tended to focus on customer satisfaction and reach, with limited assessment of sustained behaviour change. It can be difficult to secure the resources and on-going engagement with participants needed to track the long term impact of interventions. However, if the building blocks of financial capability are understood and agreed, it will be possible to monitor the development of financial capability and confidently judge whether the individual is on track for successful adult financial independence. This could do much to improve the existing evidence base; meta-studies of financial education regularly fail to show evidence of behavioural impact, or demonstrate minimal or no effectiveness. The most recent comprehensive study found that financial education interventions, once account was taken of relevant pre-existing psychological traits, could only explain 0.1% of financial behaviour.[35]

Key insight 8: Stronger agreement is needed within the sector about what needs to be achieved, how it should be measured and how findings should shape future interventions

The necessity of developing financial capability in children and young people is now higher on the national and international agenda that it has ever been before. Financial education is embedded in the primary and secondary curriculums in Northern Ireland, Scotland, and Wales; more recently, it was included in the secondary curriculum in England.[a] Internationally, more and more countries are participating in the Programme for International Student Assessment (PISA), which measures financial literacy levels.

National and local organisations have been working on this particular issue for a number of years, developing a range of financial education tools and interventions. The focus of these programmes has tended to be on school based interventions, for 11-16 year olds. These interventions have primarily focused on measuring and improving children's financial skills and knowledge. Few programmes focus on building positive financial attitudes and motivations in children and young people. There are also very few parenting or family interventions, and minimal activity for children below the age of five.

As the insights above suggest, supporting children and young people from infancy to their transition into financial independence, fostering positive financial mindsets, and using a wider range of messengers, are likely to further improve the financial capability amongst children and young people. The Strategy recommendations which follow propose to broaden the scope of financial capability interventions for children and young people, building upon and supplementing existing programmes.

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a. See Developing financially capable young people, Ofsted 2008, for a set of features of good practice for personal finance education.

Recommendations for priorities and actions

Priorities and actions have been developed based on the insights from the Financial Capability Framework and the Children and Young People's Working Group.

Priorities: what the strategy will focus on

Actions: how these priorities can be delivered

The consultation period will be used to gather views and build consensus on the way forward. The next step will then be to work with partner organisations to develop detailed action plans ready for publication in the final strategy.

Priorities

We propose five key priority areas for children and young people. These form the core objectives of the proposed children and young people strategy.

Underpinning these five priorities is the need to improve the effectiveness of interventions by aligning them to evidence of what, how, when and from whom children and young people learn different aspects of financial capability best.

Key insights	Priorities
1. Children are ready to learn basic things about money from age three. 2. Attitudes to money are important. Brain development means that many attitudes and habitual behaviours are largely fixed by the age of seven. 3. Parents and carers provide the main opportunity to see, talk and experience money on a daily basis.	1. Do more to equip and motivate parents and carers to teach their children about money.
4. Children and young people who cannot rely on their parents and carers to provide this role need other opportunities to learn.	2. Ensure that all children, regardless of their family situation, have the opportunity to learn about money outside the home.
5. New skills and knowledge need to be relevant and applied quickly to be understood and retained.	3. Increase opportunities for children and young people to manage their own money.
6. Consumer messaging and social influences encourage young people to spend rather than save, even if they do not have the money. Young people see being good with money as boring. 7. Talking openly and honestly about money is still a taboo within the home, friends and society.	4. Identify ways to help young people feel proud to be good with money.
8. Stronger agreement is needed within the sector about what needs to be achieved, how it should be measured and how findings should shape future interventions.	5. Develop shared evidence base that shapes future interventions.

Recommendations for action

Delivering against these priorities will require action from a wide range of organisations. In some areas, the necessary steps are clear, but in others we need to work together to identify and agree the way forward. Drawing upon a wide range of expertise, the Money Advice Service has taken the lead in recommending a set of actions to deliver the strategy.

> Financial service providers, financial capability and entrepreneurial providers should increase opportunities for children and young people to manage their own money and put their learning into practice. For example, providing savings banks in schools; driving up engagement with products with adult features such as mobile apps.

> Focussed research, innovation and experimentation should take place to identify ways to help young people break down taboos and feel proud to be good with money.

A better evidence base is needed to identify and drive commissioning to the most effective interventions. A new outcomes framework should be widely adopted and results shared, alongside a collective research programme.

Priority 1: Do more to equip and motivate parents and carers to teach their children about money

Parents and carers are the primary way to influence children and young people. However there are limited interventions which raise awareness and support parents in this role. Mobilising and supporting parents to do this would significantly expand reach and could embed positive attitudes to financial capability on a vast scale.

The recommended actions are:

> Identify, agree and extend use of simple, key messages about money for children of different ages.

> Work with financial education providers to design and promote opportunities for parents and children to build on financial education in schools to learn more about money at home.

> Work with organisations that provide early years care and family learning opportunities to develop and extend the availability of programmes that encourage parents and carers to engage with their children around money from an early age.

Priority 2: Ensure that all children, regardless of their family situation, have the opportunity to learn about money outside the home

All children and young people need to have the opportunity to develop financial capability continuously, no matter what their family situation is. Partnering with trusted organisations who already reach children and young people will create those opportunities to help ensure no child or young person misses out.

The recommended actions are:

- Work with organisations that teach and support children, young people and parents to embed financial capability within their programmes.
- The Government should consider the case for adding financial education to the primary curriculum in England.

Priority 3: Increase opportunities for children and young people to manage their own money

Financial capability can be improved by developing approaches which are anchored in evidence about how young people retain their knowledge best – namely, through putting it into practice. More opportunities for children and young people to manage their own money with increasing levels of responsibility as they get older will embed financial capability learning and prepare them for adult financial responsibility.

The recommended actions are:

- The financial capability and entrepreneurial sector provide further opportunities for young people to manage their own money with age-appropriate responsibility, e.g. through savings banks in schools.
- Financial services provide further opportunities for young people to manage banking products with elements of adult money management, such as online access, in a safe environment.
- Parents to provide children with regular pocket money with clear responsibilities.

Priority 4: Identify ways to help young people feel proud to be good with money

Young people are particularly vulnerable to the effects of social norms which currently endorse poor money management as an expected part of life. Making financial capability something for all young people to aspire to could change financial behaviour. The recommended actions are:

- Develop a programme of focussed research, innovation and experimentation to identify ways to change social norms amongst children, young people and parents.

Priority 5: Develop a shared evidence base that shapes future interventions

The evidence base on the effectiveness of advice and financial capability support for children and young people is limited. Moving to a system where the programmes funded are either ones that have been proven to work, or innovative pilots which are rigorously evaluated, could help to transform the financial capability of the next generation.

In order to achieve this vision, the recommendations for action are:

- Financial capability funders and providers sign-up to the high-level IMPACT evaluation and evidence principles and embed them in the way they work;
- Providers agree to base interventions around what works e.g. tailored to developmental age, just-in-time, etc;
- Funders to direct resources to programmes that have been shown to work or to new and innovative projects with evaluation built in;
- Providers, funders, the Money Advice Service, research and academic institutions develop a collective research programme that identifies and fills evidence gaps.

Consultation questions:

Consultation question 7: How far do you support the Strategy's aims for children and young people?

Consultation question 8: What is your view of the recommendations for action relating to children and young people? How could they be improved?

Children and Young People Working Group

The UK Strategy is being developed through a highly collaborative process and has drawn on the expertise of a wide range of organisations. Jonathan Douglas, Director of National Literacy Trust and a non-executive director of the Money Advice Service chaired a working group of experts drawn from the private, public and charity sector with the Money Advice Service providing the secretariat.

Represented on the group were:

- Action for Children
- British Banking Association
- Big Lottery Fund
- Citizens Advice
- Colleges Wales
- Education Scotland
- Institute of Financial Services University College
- Investment Management Association
- MyBnk
- National Association of Student Money Advisers
- National Skills Academy for Financial Services
- Personal Finance Education Group
- Save the Children
- StepChange
- The Money Charity
- Quaker Social Action
- Dr Elizabeth Kilbey, Clinical Child Psychologist

The group met in March and May 2014 and considered a wide range of evidence on the financial capability of children and young people, the extent and effectiveness of existing provision and agreed recommendations to make to the Steering Group. Smaller group sessions and bilateral meetings took place between June and August 2014.

1. Indebted Lives: the complexities of life in debt, Money Advice Service 2013

2. State of the Nation 2013: Social mobility and child poverty in Great Britain, Social Mobility and Child Poverty Commission 2013

3. Home ownership at the lowest levels since 1987

4. Indebted Lives: the complexities of life in debt, Money Advice Service 2013

5. Habit formation and learning in young children, Money Advice Service 2013

6. Ibid.

7. Ibid.

8. Ibid.

9. Ibid.

10. The impact of parental involvement on children's education, Department for Children, Schools and Families 2008

11. Ibid

12. The financial capability of 15-17 year olds, Money Advice Service 2013

13. APLUS Wave 2: Changing Financial Behaviors of First Year College Student, The University of Arizona 2011

14. Debt Tracker November, YouGov 2013

15. Research on the intergenerational links in the Every Child Matters outcomes (Blanden et al 2010)

16. The financial capability of 15-17 year olds, Money Advice Service 2013

17. Social Learning Theory, Bandara 1977

18. Child-care practices anteceding three patterns of preschool behaviour, Baumrind 1967

19. The Effect of Financial Literacy and Financial Education on Downstream Financial Behavior, Fernandes et al 2013

20. Experiential Learning: experience as the source of learning and development, Kolb 1984

21. Mind in society: The development of higher psychological processes, Vygotsky 1978

22. Changing Economics of Children's Pocket Money, YouGov 2013

23. Research for the British Bankers' Association and pfeg, YouGov 2013

24. The financial capability of 15-17 year olds, Money Advice Service 2013

25. It's time to talk: Young people and money regrets, Money Advice Service, forthcoming

26. The financial capability of 15-17 year olds, Money Advice Service2013

27. It's time to talk, Money Advice Service, forthcoming

28. Ibid

29. From the cradle to the grave: Comparison and self-evaluation across the life span, Suls & Mullen 1982

30. Reducing risky behaviour through the provision of information, Department for Education 2013

31. It's time to talk, Money Advice Service, forthcoming

32. Social-psychological factors in the initiation of adolescent health risk behaviors: a longitudinal study Gerrard & Gibbons 1994

33. Parental involvement in their children's learning, General Teaching Council for England 2006

34. Prevalence estimates and adolescent risk behavior: cross cultural differences in social influence , Gerard & Gibbons 1995

35. The effect of financial literacy, Fernandes et al 2013

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