



Mind the Gap: Young Adult Financial Capability

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Context



- Imperative to understand (and improve) the *financial capability of young adults* in the UK.
- Young Adults:
 - the next economically active generation
 - missed out on compulsory financial education in schools (PFEG 2014)
 - apparent limited discussion of money within families or society (Gudmunson & Danes 2011)
 - a key transition stage in the life cycle; uncharted financial responsibility.
- A small Venture Grant from UEBS funded a qualitative study using *theory of financial socialization*
- In 2014/15, we shared our findings with Money Advice Service (MAS).
- MAS Financial Capability strategy (2016) identified young adults as having specific challenges/needs and commissioned Harrison, Marchant, Ansell (2016) to do a 'deep dive' leading to *Young Adults Financial Capability Report*.

This presentation aims to draw together the major conclusions from both these studies...

Study 1: aims and objectives

Aim:

- to explore from whom (agents) and how (processes) emerging adults have been financially socialized and how they continue to be socialized into the financial market place.

Objectives:

- To understand the past and present agents and processes of financial socialization
- To understand the theoretical and practical implications for improving financial capability

Financial socialization lens



‘acquiring knowledge about money and money management and developing skills in various financial practices such as banking, budgeting, saving, insurance, credit card use’

(Solheim et al. 2011, p.98)

‘financial socialization is much more inclusive than learning to effectively function in the market place. It is the process of acquiring and developing values, attitudes, standards, norms, knowledge and behaviours that contribute to the financial viability and individual well being’ (Gudmunson & Danes, 2011, p. 645)

Methodology



- **Qualitative study:**
 - semi-structured interviews about financial socialization histories – past and present socialization agents and processes.
- **Sample:**
 - 10 male/10 female emerging adults from 18-29 years (NB: emerging adults v young adult definitions).
 - ‘Young adult’ Research Assistant assisted with purposive and snowball sampling.
- **Sample characteristics:**
 - Range of current circumstances, education levels and socio-economic/family backgrounds.
 - Broadly all culturally similar - UK heritage and brought up or now living in Edinburgh area of Scotland.



Overall findings...

- Confident and competent day-to day-money management – most living from weekly or monthly pay cheque.
- Limited evidence of any saving - only four participants showed active engagement with planning their finances.
- Evidence of ‘**incidental learning**’ (Roeder, Didow & Calder 1978) or ‘**experiential learning**’ (Drever et al. 2015) rather than ‘**explicit coaching**’

Three key agents of socialization identified:

- Past and ongoing family socialization
- The paradoxes of the family bank
- Self-socialization

Family



- **Learn by example (passive negative and positive role model):**

'They're not financially minded people, if you know what I mean.... I mean I think they're quite good at the base finances, you know the stuff you need to do. But there's nothing more than that, it doesn't seem. I don't really know what else there is out there so I could be wrong.' (Graham, 24 Charity Worker)

'The negative mistakes that I've watched them [parents] make have impacted my knowledge of the financial system more than anything' (Doug, 23, Bar worker)

- **Control v delegation:**

'I had an ISA for a year and then that matured and I've reinvested it but that was a lot with the help of my mum so I kind of don't really know where I've reinvested it or what I've done with it.' (Eleanor 22, Graduate Recruit)

- **Advice/benchmarking:**

'I asked my dad and my dad said "you don't really need one" and I said - because we were thinking at the time about buying a flat - and I said, "won't they need to have a credit rating for potential mortgages?" and he said "yes, go get one"' (Jack, 22, 4th year student)

- **Security blanket:**

Family continued...



- Literature suggests as we get older socialization becomes more influenced by peers and less by family (Moschis & Moore 1979, Shrim et al. 2011, Ekstrom 2006).
- In our research, **this was not the case**, the family remained the primary source of information and influence for most well into their 20's,
- Literature tends to **assume an active past and present** parental role.
- We found that most learning tended to be **incidental or passive** and definitely limited.

Bank

- **Historical/rite of passage:**

'I went with my dad and he decided. But I remember being with him when we set it up, obviously I didn't really understand what was going on but I think he made a point of bringing me with him. He wanted me to understand kind of, don't think I understood at the time. I just knew that if I put some money here then it would be there' (Sonia 22, Café worker)

- **No real emotional connection, yet no known alternative:**

Researcher: And where would you go for that [mortgage], do you think?

Lynne: I honestly don't have a clue. I think I'd probably start off at the bank, I guess, but I don't know. (Lynne, 22, Bar Manager)

- **Blind trust versus avoidance/distrust:**

'I don't like going in [the bank], I don't feel comfortable' (Alison, 20, Cafe Worker) and in an extreme case:

'sort of 10 little spots in my bedroom where little rolls of cash are kept.' (Doug 23, Bar worker)

'Self-socialization' (Arnett 2015)



- Internet (Google, Wikipedia, comparison tables dominate)

'I'd just Google 'student flat insurance' and hopefully find a company and just, I don't know, presumably buy some insurance there' Jack (22 4th year student)

- Learning from past mistakes:

'I wanted to just have a bit of a cushion you know be able to go and if I have 4 days off I can go to Barcelona and not really worry about it when I know that I'm rarely going to have the opportunity later on. So I had a big couple of years and enjoyed it but it did take some time to pay those back and that was tough' (Harry, 28, Hospitality Manager)

Limited influence from other socializing agents

- **School:**

'we should be learning how to manage our money not learning trigonometry' (Anthony 27, Entrepreneur)

- **Work:**

Researcher: And when do you think you'll start thinking about pensions and that side of things?

Hugo (23, final year student) 'Good God, don't know. Once I'm in a stable job I suppose, but I think that with a lot of jobs, do they not sign it up as part of sort of the initial package?'

'when we grow up' (Harry 28, hospitality worker)

- **Peers:**

Only 'in communitas' or in crisis: *'you'll see someone on Facebook or Twitter like "oh student loan day, hooray, let's go shopping" but I wouldn't say we spend that much time talking about it [money], I mean you are aware'* (Mary 22, Cafe worker) creating challenges for peer-to-peer learning.

- **Media:**

'boring', 'depressing' or 'difficult to understand'

- **Government/NGO agencies - MAS, CAB:**

'on low incomes' and those 'with unstable situations' (Graham 24, Charity worker)

Summary: Gaps in achieving successful financial socialization?

Grusec (2002) criteria:

- Self regulation of emotion, thinking and behaviour – in other words taking responsibility for one's self
- Acquiring and understanding cultural standards in terms of attitudes, behaviours and conformities
- Development of role taking skills and strategies to resolve conflicts via increased capability

MIND THE GAP

Study 2: MAS Young Adult Financial Capability

Aim:

- Provide a deeper understanding of the factors that promote or inhibit **financial capability** among young adults, specifically **managing money well day-to-day, preparing and managing events and dealing with financial difficulties.**

Methodology:

- Secondary data analysis of Financial Capability Survey, comprising 3,461 UK respondents, of which 744 were 'young adults' aged 18-24.
- Five focus groups, conducted specifically for MAS, comprising a 23 'young adults' aged 18-25.

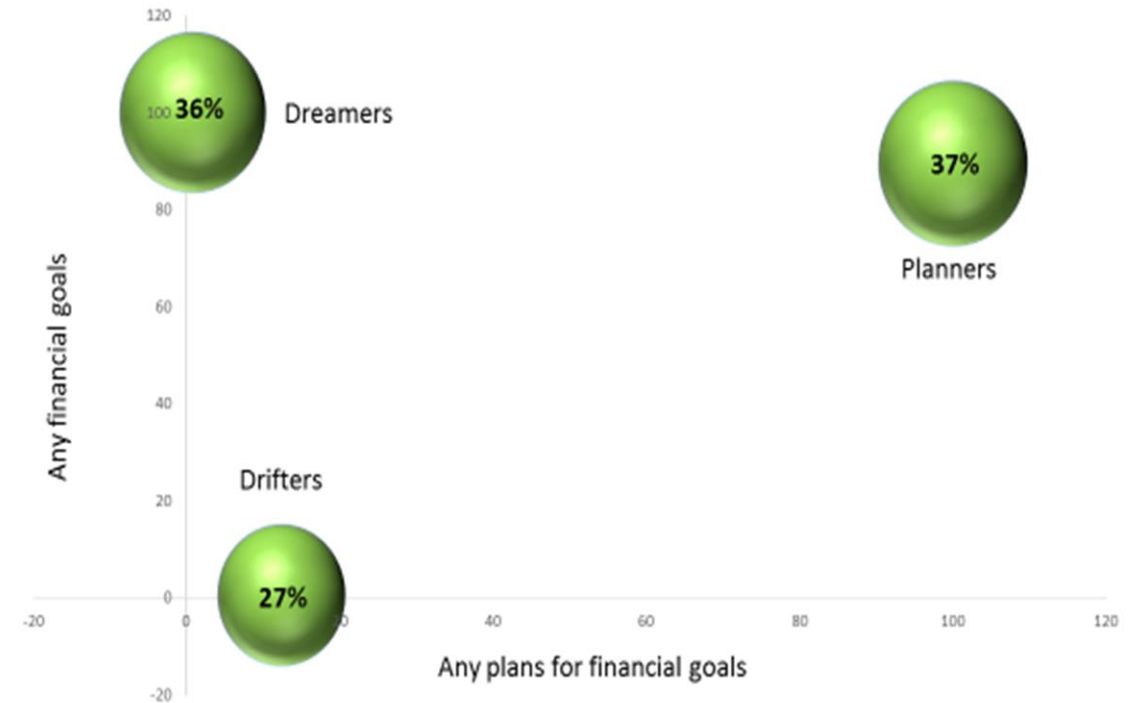
Led to findings across three themes:

- Financial goal setting and planning;
- Financial confidence in managing money well and making financial decisions
- Factors/barriers affecting engagement of young adults.

Highlighted opportunities to engage young adults further.

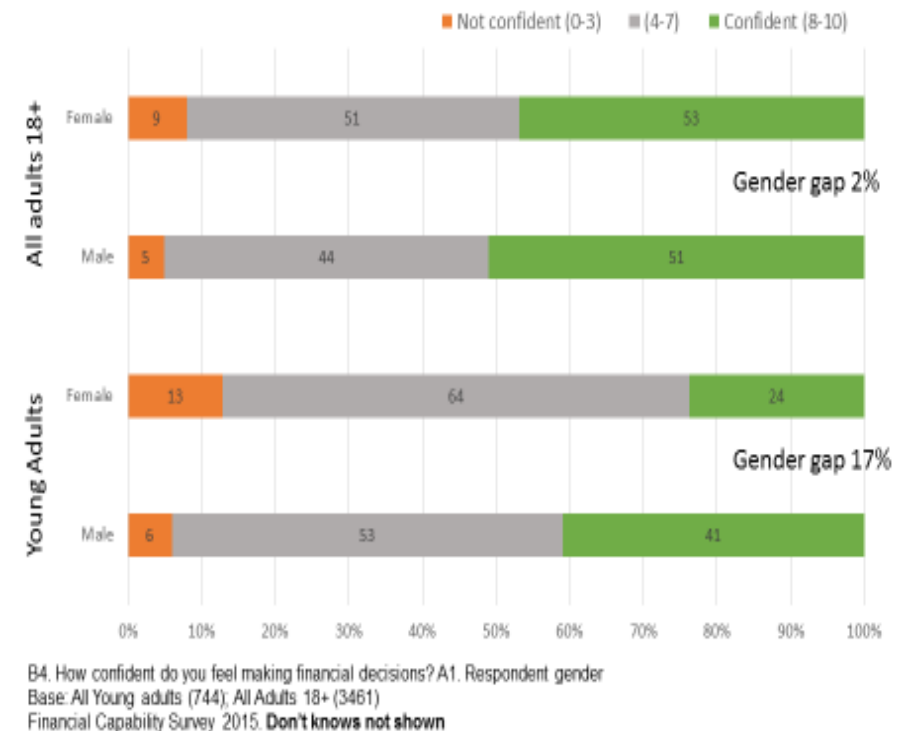
Financial Goals and Planning

- **69% of young adults have financial goals** over the next 5 years (compared to 53% of all adults 18+)
- **41% have plans to achieve their financial goals** (compared to 36% of all adults 18+).
- However, the gap between goals and planning is greatest among young adults.
- **28% of those who had a financial goal did not have a plan** in place to achieve it; compared with 17% of all adults.
- Three planning profiles were identified: **Planners, Drifters and Dreamers**.
- Financial goal setting and planning tended to be **short-term rather than long-term**; save-to-spend planning.
- **Motivations** to set goals and plan are influenced by: **financial confidence, attitudes, experience of financial products and financial independence**.



Financial confidence

- Young adults are the least confident age group when it comes to money matters.
- Only 45% rated themselves as 'very confident' at managing money.
- Females are less confident than males.
- Young adults in higher education (20-22 year olds) are less confident than those in full-time work; full time work brings greater financial independence. Confidence grows with experience rather than age alone?
- The least confident at managing money were three times more likely to be over-indebted than those 'very confident'. In total 24% of young adults were over indebted, yet 21% were not seeking advice.
- Confidence in the longer-term seemed to be low due to a lack of consideration beyond the short term; a lack of experience or understanding of financial decision-making beyond basic spending and saving.





Barriers to engagement

- The *only* really trusted advisers were parents/family.
- The bank was a *reluctant* second choice often accepted as the only other avenue, yet banks were *mistrusted* by most.
- Young adults were *confused about financial guidance and advice* (particularly females and Drifters), were *unable to distinguish* between money guidance and regulated advice and perceived it as for those with a lot of money to invest.
- Other providers of guidance, such as the Money Advice Service and the Citizens Advice Bureau were typically seen to be for those *struggling* financially.
- Young adults did discuss finances with peers when there was a *shared reason*, such as discussing insurances for holidays or on passing their driving tests.
- Many felt overwhelmed by the quantity of information available *online* and experienced difficulty filtering the good from the bad.

Conclusions from both studies: Opportunities to engage young adults



- A need to identify teachable moments at key points of transition
- Identify peer, 'near-peer' or nominated experts for advice as points of transition are reached
- A need to identify and explain 'unbiased' advice and show how to access such advice
- Banks must distinguish between selling and advice and rebuild trust
- The importance of education-based practical skills from childhood was stressed by many participants
- Build on family trust as this was by far the most important avenue for advice for all; encourage open conversations, developing financial independence and suggest inclusive socialization processes
- Build on online opportunities whilst addressing/avoiding the overwhelming choice leading to anxiety. Education (regulation?) important here too.

Thank you for listening – any observations/
questions?



Table 1: Participant details

Pseudonym and age	Past circumstances	Current circumstances	Future aspirations
Hugo, 23	Privately educated at privileged school in England, both parents worked hard to send three children there.	Final year undergraduate student in humanities, <i>'cruising along on a 2:1 average'</i> . Rents house and shares.	To be settled into a job in 5 years' time but not sure what, possibly civil service or GCHQ.
Harry 27	State school. Family business collapsed in teen years. Worked in hospitality from age of 16 and loved despite family pushing for successful BA/MSC qualifications. Parents divorced, one sibling	Worked his way up to current managerial position in hospitality in luxury hotel. He has received many job offers – confident situation. Rents accommodation but aspires to buy.	Sees 30 as a turning point when he becomes an adult and starts to take life seriously: <i>'I'm going to get to 30 and think 'right now is the time that I start cracking the whip'</i>
Johnny, 19	Lived all around the world with father's job, home schooled. Married parents and five siblings with very limited income. College educated in UK	Third year student on internship/ work experience year – enjoying having disposable income. Living at home to save money.	Keen to be married young with a family (by 24 ideally). He aspires to be a web-designer and comfortably off but not driven/no overly ambitious goals
Tony, 29	Moved to UK in 1990s; British citizen. Single parent upbringing. Education until 17 then left. Worked since in variety of jobs. Bought a house early and it was repossessed and still owes banks money	Self employed security/bouncer – he has worked successfully for others and is now setting up own business. Rents a room in a house.	Hopes to be successfully running his own business and reap benefits of hard work: <i>'From 18-30 it's the time where you set your life up and from 30-40 is where you kind of live what you've set up or improve what you set up'</i>
Graham, 24	State school educated in London. Married parents and older sister. Dad changed careers several times; Mum provided stable income. Completed master's degree in 2013.	Working full-time for a charity. Living in shared, rented flat with two friends.	Not sure. Wants to continue working in the third sector, but not really sure in what capacity. No desire to own home.
Jack, 22	Privileged upbringing and life in Channel Islands in family home, married parents, one sibling.	Fourth year of full time degree in engineering. Rents property and sub-lets.	Applying to study a second degree - medicine – hasn't thought beyond that but <i>'by 35 I'd like to be married with a family, a range rover and a house'</i> .
Doug, 23	Left school at 16, various jobs from call centre work, financial advisor, driver abroad, bar work. Married parents one sibling.	Bartender/manager, recently moved to Edinburgh to be with girlfriend, rents from friends.	Considering going back into education via access course to study psychology. His philosophy is <i>'money's there to be spent and enjoyed in my opinion'</i>
Louis, 18	One parent family upbringing with mum and young sister, state school educated, some special needs, keen to get to university.	First year student elects to live alone in a flat but may share next year. Understands system and has many bursaries and scholarships.	To be earning a lot of money and be comfortably off, possibly in London, possibly investment banking.
Connor, 27	Married parents, 2 siblings. State school educated, worked in numerous jobs over 7 years	Mature student – full time. Lives at home with parents. Sees a degree as a pathway to a good career.	Wants to do 'something in business' possibly general management but 'open to options'
Anthony, 27	UG degree in Business, post grad in Entrepreneurship, travelled for a year and several jobs before setting up own business.	Single. Runs own business but thinks he may also need to get a 9-5 job to enable him to get a mortgage. Currently rents.	Successfully run his own business and own home. Thinks adult life begins when you have children and need to be responsible.
Sally, 19	Private educated in England, married parents with 2 siblings.	Third year of full time degree, rents with friends.	Wants to do 'something with people' possibly the civil service but 'keeping options open'
Samia, 19	One parent upbringing, parents divorced at 7 and she has 3 sisters. Lived and schooled locally all her life.	Second year humanities student, choses to live at home and commute/save money, works part time in McDonalds.	Saving up for a third year abroad, longer term interested in academia or banking but not sure yet.
Ailsa, 27	Divorced parents. Left state school at 18, worked in bank for 7 years, bought flat with partner but split up two years later	Full time mature student in third year of degree, single mother of a 7 month old boy. Enjoying degree and learning.	To be settled into a good job possibly with a bank and to successfully support son as a single parent.
Eleanor, 22	Completed UG degree in 2014, worked in supermarket throughout her degree to help fund it. Married parents and 2 siblings.	Sept 2014 joined a graduate scheme at a Bank and hoping an opportunity will arise for her boyfriend to join her in Scotland.	Keen to settle down. Saving towards buying a home soon: <i>'I feel like I've committed now to being in the world of work'</i>
Alison, 20	Worked since 16 in bars and restaurants and travelled when she could afford it. Divorced parents and one sibling	Works in a café and paid weekly, lives at home to save money in order to travel more.	She wants to become a Yoga teacher once she's travelled the world
Sonia, 22	Came up from England to do her degree in languages and graduated in summer 2014.	Decided to stay in Scotland and rent with friends. She is working in a Café until finds a <i>'proper job'</i>	Currently applying and hoping for a graduate job utilising her languages/ degree – not concerned about location.
Lynne, 22	Worked since 16, left college at 18. Worked in bars and restaurants ever since, enjoys working with people. Single parent upbringing.	Currently promoted to Bar manager, paid monthly now and rents with a friend.	Undecided whether she wants to own her own bar, travel or buy a house – really not sure what she wants to do.
Olwyn, 21	Left school at 18 and went to college to study nursery nursing. Married parents and one sibling.	Still lives at home, works as nursery nurse and trying to pass final exams.	Sees herself staying in nursery nursing, possibly one day buying and living in her own home or using it for buy-to-let.
Brenda, 21	Studied for a science degree and then changed direction to study business. Married parents and mother has long term health issues.	In third year of Business degree, also works to supplement income.	Unsure, possibly academia or working in sustainability.
Mary, 22	Family of 5 siblings, recently divorced parents, graduated from university in summer 2014 in Humanities.	Living back at home and working in a café to raise money to travel with her boyfriend over the next few months.	Travel more or find a job and not sure whether she wants a <i>'job job'</i> or whether to train to teach yoga/sport or do an MSC