The Financial Capability Strategy for Scotland

Acknowledgements

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The Money Advice Service looks forward to continuing to work with these organisations in the delivery of the Strategy.

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Foreword

This Strategy puts in place a framework for improving the financial capability of people in Scotland.

A wide range of organisations are already involved in helping people to manage their money better - government bodies, commercial organisations, charitable foundations and the voluntary sector. All of whom do excellent work and can deliver real benefits for people.

Yet levels of financial capability in Scotland remain frustratingly low – as the findings of a new Money Advice Service survey make clear. While many people are taking control of their finances and putting something aside for a rainy day when they can, there are still far too many at risk of falling into serious financial difficulties and failing to get the help they need if they do.

The result is that, for a great many people across the country, money is a constant source of worry and stress. This is a problem, first and foremost, for the individuals concerned and for their families – but it also has wider implications for society and the economy. Nobody should be prepared to stand by and allow this situation to continue.

Technology has already changed the way many people manage their money and this trend is likely to continue. The world is likely to be a very different place in 10 years' time and this Strategy will ensure that where advances in technology can be used to assist people to improve their financial capability, they are.

The Strategy recognises that people have different needs at different stages in their lives – whether it's helping children from an early age to develop the skills and attitudes they will need to manage their finances in adult life; encouraging working-age people to build their financial resilience and plan for the future; or making sure older people make the best use of their money in retirement.

The Strategy presented here is the result of active engagement from many individuals and organisations – and thanks are due to all of them. But the work is only just beginning.

Successful delivery of the Strategy will depend on effective co-ordination to ensure that we avoid duplication and fill gaps. Most importantly it will require a rigorous approach to evidence and evaluation, so that actions are informed by what we know works. It will depend on all those who have been involved this far, and a good many more – committing wholeheartedly to the aims and approach set out in the Strategy, and collaborating to deliver it. I anticipate active support from the Scottish Government, the financial services industry, the third sector, local government and others.

I know that if we work together across all sectors of society we will all be able to look back with pride at what we have achieved – a generation of people in Scotland whose lives have been transformed through managing their money better.

Andy Briscoe – Chair,
Financial Capability Board

Part 1

The UK Strategy

Introduction

Working-age people in the UK don't plan ahead:

- 12 million aren't saving enough for their retirement
- 27 million don't have a sufficient savings buffer to allow them to cope with a significant income shock
- Only half of people with families have any life cover

Many UK adults don't have the resilience to deal with day-to-day events:

- 21 million don't have a modest £500 savings buffer to replace a fridge or mend a car
- 19 million don't have an approach to budgeting that they feel works

And too many are in financial difficulties:

- Around 8 million have problems with debt
- Of those, just one in six is seeking help

This Strategy aims to improve financial capability, giving people the ability and motivation to address the situation described above.

That means **improving people's ability to manage money well, both day to day and through significant life events, and their ability to handle periods of financial difficulty.** It will focus on developing people's financial skills and knowledge, and their attitudes and motivation. This, combined with an inclusive financial system, can help people achieve the best possible financial wellbeing.

This document consists of:

- a clear description of the problem the Strategy is looking to solve, and why it matters, including a comprehensive analysis of the 2015 Financial Capability Survey;
- an articulation of what success looks like over the 10-year life span of the Strategy; and,
- a plan for how to get from today, to achieving the ambitions of the Strategy.

Central to the success of the Strategy will be ensuring that resources are deployed as effectively as possible, on interventions that are proven to work. The Strategy will also need to ensure that, where appropriate, interventions are sufficiently targeted to meet the needs of people in vulnerable circumstances. To facilitate this, the Money Advice Service will continue to contribute strategic and thought leadership and will focus on improving and disseminating the evidence about what works, increasing the amount and visibility of robust evaluation, and working with others to design, fund and evaluate interventions with the potential to improve financial capability. This is a similar role to that carried out by a 'What Works Centre',[1] and it will support the development of evidence needed for all key groups and needs covered by the Financial Capability Strategy over its 10-year period.

[1] The What Works Network aims to improve the way government and other organisations create, share and use high-quality evidence for decision-making. There are currently seven What Works Centres.

The Money Advice Service will also look to fill gaps in guidance, based on its observation of people's behaviours, the likely detriment to particular consumer groups, and the extent and effectiveness of existing provision. The Money Advice Service's three-year Corporate Strategy and Business Plan will set out these roles for the Money Advice Service in more detail. At the time of writing, these are currently out for consultation. There will be a focus on working-age people (in particular their capabilities in budgeting and saving); children and young people; supporting everyone who needs it with high-quality debt advice; and encouraging everyone that has to make an important financial decision to access the information, advice and guidance they need to support them.

This Strategy is UK-wide but has developed nationally-specific actions for Scotland, England, Wales and Northern Ireland that recognise and address the policy contexts of each nation. This document sets out the full action plan for Scotland.

More detailed analysis focusing on the evidence, needs and priorities for each life-stage and theme is available **here**, which will be regularly updated with progress on Strategy delivery. This will be of particular interest to the many organisations, such as funders and delivery partners, who focus on particular sections of the population.

With the publication of the 2015 Financial Capability Strategy for Scotland, the hard work begins. The challenge for everybody with an interest in raising financial capability is to work collaboratively to deliver the improvements that people need.

Context

The Money Advice Service has led the development of this Strategy, on behalf of all organisations with an interest in improving financial capability. This work has been overseen by the Financial Capability Board,[2] and has had the benefit of wide consultation on what is currently happening, what works, where the gaps are in current provision and what priorities stakeholders want the Strategy to take forward.

The first ever financial capability strategy for the UK was developed and published by the Financial Services Authority (FSA) in 2006. In September last year, following an initial call for evidence, the Money Advice Service published the Draft Strategy which built on the work done by the FSA and focused on defining the problem and the approach to developing the Strategy. It proposed a framework for understanding the concept of financial capability and priority areas for action.

The Draft Strategy was positively and constructively received, following a series of consultation events. In March 2015 the Money Advice Service published the Consultation Response and Next Steps. This report described progress in developing the Strategy in response to the consultation feedback and an update on the key initiatives underway. It promised the final Strategy with detailed delivery plans later in the year.

[2] Full membership of the Financial Capability Board can be found in Appendix 2.

Why this Strategy is needed

Improving financial capability is a huge challenge but one, that collectively it is possible to rise to. There is a need to counter deeply embedded social norms which mean that many people are spending today, rather than saving for tomorrow. And to prove which initiatives can make a difference in improving financial capability.

There will always be external factors that impact on how people manage their money or indeed how much money they have, such as wider economic circumstances or changes to Government policy, over which the Strategy has no direct control. What the Strategy can and will do is build levels of financial capability to enable more people to navigate changes in their financial circumstances when they occur and help them to manage the money they do have.

The belief, and the consistent message from stakeholders from across the UK and in Scotland, is that levels of financial capability must be improved from their current low levels, and that if everybody works together it is possible to rise to the challenge. Life is getting more complex. The Draft Strategy described a compelling case for raising financial capability and helping people to improve their lives. The changing financial environment will make financial capability ever more important.

Financial capability matters

Money Advice Service research confirms that work to build financial capability needs to start at a very young age. By the age of seven many money attitudes are already set,[3] but currently some ‘teachable’ moments are being missed. Parents are the key influencers on their children, but few are given the support they need to fulfil this role. Financial education is now on the curriculum across the UK, but the education sector needs support to deliver high-quality financial education.

Talk, Learn, Do: Parents, Kids and Money

The Money Advice Service and Big Lottery Wales, have launched a new pilot project which aims to motivate parents and carers and equip them with the confidence and ability to develop children’s positive money habits that will stay with them for the rest of their lives. Parents and carers will be encouraged to help their children develop skills such as self-control, perseverance, sensible attitudes to money and setting financial goals. The pilot will be implemented via nearly half of all local authorities in Wales and will reach as many as 1,000 parents and 1,600 children aged 3 to 11.

For many young adults, navigating the transition from education to the jobs market and independent living can be challenging. Poor financial decisions made at this time of life can have severe consequences, so there is a need for financial capability interventions to support young people at key points of transition.

As people move through their working lives they need to be able to build resilience to cope with financial shocks, such as redundancy, divorce, serious ill health or bereavement, and to plan ahead for life events such as buying a home, starting a family and retirement. People need to be able to budget, create a savings buffer and understand how to avoid financial difficulties.

For those approaching retirement the landscape has changed significantly in recent times and now raises a very particular set of financial capability issues. It does not end there – deteriorating physical health and cognitive decline in later life can present new challenges. At the same time there is the need to make complex financial decisions around planning and paying for care.

Low financial capability leaves a huge part of the population with limited financial resilience to deal with unexpected life events. Societal influences encourage spending now rather than saving for the future. Every day people are bombarded with marketing messages to spend and borrow. People may spend

[3] Habit formation and learning in young children (Money Advice Service, 2013)

more than they can afford because they feel under pressure to match spending behaviours of friends and family.[4] Social norms tend to prompt poor financial choices as people are primarily concerned with hiding financial problems by continuing to spend.[5] Low income can exacerbate all these issues, but we also know that people on low incomes can budget extremely effectively and many can and do save.

The impact of financial difficulties on health can be significant – more than half those accessing debt advice funded by the Money Advice Service have mental health issues.[6]

The Draft Strategy published by the Money Advice Service in 2014 recognised the importance of shifting social norms to improving financial capability, but equally recognised this would be a complex and long-term endeavour. The consultation responses strongly supported this view. The Strategy proposes some first steps in taking this forward, building on the growing body of evidence on the application of behavioural economics and psychology to shifting norms, attitudes and motivations.

The changing financial environment

Recent and impending changes in the financial environment are increasing the importance of individuals being able to manage their money well. For example, the introduction of pension freedoms and Universal Credit demand greater engagement with, and understanding of, money management. Overall more responsibility for financial decisions is shifting to the individual. How successfully people adapt to this change will be affected not only by their skills and knowledge, and their attitudes and motivations, but also by their access to appropriate financial products, services and information. People need help to make the choices that are right for them, and to understand the consequences of the choices they are making.

Inevitably over the next 10 years there will be further political and economic changes that affect the way people manage money day to day, and how they make critical financial decisions about their future.

In light of the importance of the changing regulatory and policy landscape, key insights from the Strategy will be shared with regulators and Government to help inform policy. Both HM Treasury and the Financial Conduct Authority are represented on the Financial Capability Board.

As well as Government and regulators playing their part, the Financial Capability Board will also be looking for support from financial services firms who can do much to assist people manage their money and plan ahead, and have much to gain from improved levels of financial capability.

The pace of technological advance in financial services is quickening and having a significant impact on the way we manage our money, delivering, for example, simpler and quicker methods of digital payment and further growth of low-cost platforms for transacting and managing investments. Technology presents new opportunities for those engaged in delivering advice and financial planning services, and in helping people keep on top of their finances with new tools. But it also presents new risks, enabling money transactions to be made ever more quickly without prior consideration of the consequences. And there are many who cannot, or choose not to, use new technology.

There are other changes, predominantly to the labour market, that are beyond the scope of this Strategy but will affect people's financial situation. For example, there has been a shift from employment to self-employment, to zero-hours contracts and a continued wealth gap between those at the top and bottom end of the income distribution.[7]

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4 Financial Capability and Wellbeing (Money Advice Service, 2015)
5 Financial Capability and Wellbeing (Money Advice Service, 2015)
6 Debt Advice Review (Money Advice Service, 2014)
7 Wealth in the Downturn: Winners and losers (Social Market Foundation, March 2015)

Financial capability is a global issue

As the Draft Strategy indicated, financial capability is a global issue and more countries are recognising the importance of developing strategies to co-ordinate and drive forward collective action to improve financial capability. As of June 2015, the OECD network estimated 62 countries were designing, implementing or revising national strategies on financial capability and financial education.[8] Under the auspices of the OECD and outside it, the Money Advice Service has been working closely with countries across the world, particularly English-speaking countries. It is clear many countries share similar concerns although it is hard to make direct comparisons because of the different size, culture and infrastructures across the world. Nevertheless we can and do learn from each other.

For example, a comprehensive evaluation of a flagship financial education programme in Brazil showed evidence of an increasing number of students and parents saving, and an increased amount saved. The programme has since been rolled out to over 3,000 new schools.[9]

On the other hand, a meta-analysis of just over 200 studies carried out in the United States found that whilst financial education programmes did improve longer-term financial behaviour, the impact was “minuscule” and the effect of interventions decreased over time. The study, which was based on young people aged 12 and over, did however recommend a place for ‘just in time’ financial education.[10]

The OECD will be publishing an international comparison of levels of financial literacy and financial inclusion globally in the Spring of 2016, which will include a contribution from the UK.

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8 Policy Handbook on the Implementation of National Strategies for Financial Education (OECD / INFE , November 2015).

9 Enhancing financial capability and behavior in low- and middle-income countries (Financial Literacy and Education Russia Trust Fund, Washington, DC: World Bank Group, 2014) http://documents.worldbank.org/curated/en/2014/01/19770351/enhancing-financial-capability-behavior-low--middle-income-countries

10 ‘Financial literacy, financial education and downstream financial behaviours’, published in Management Science, 60(8), 1861-1883). (Fernandes, D., Lynch, J.G. and Netemeyer, R.G. 2014)

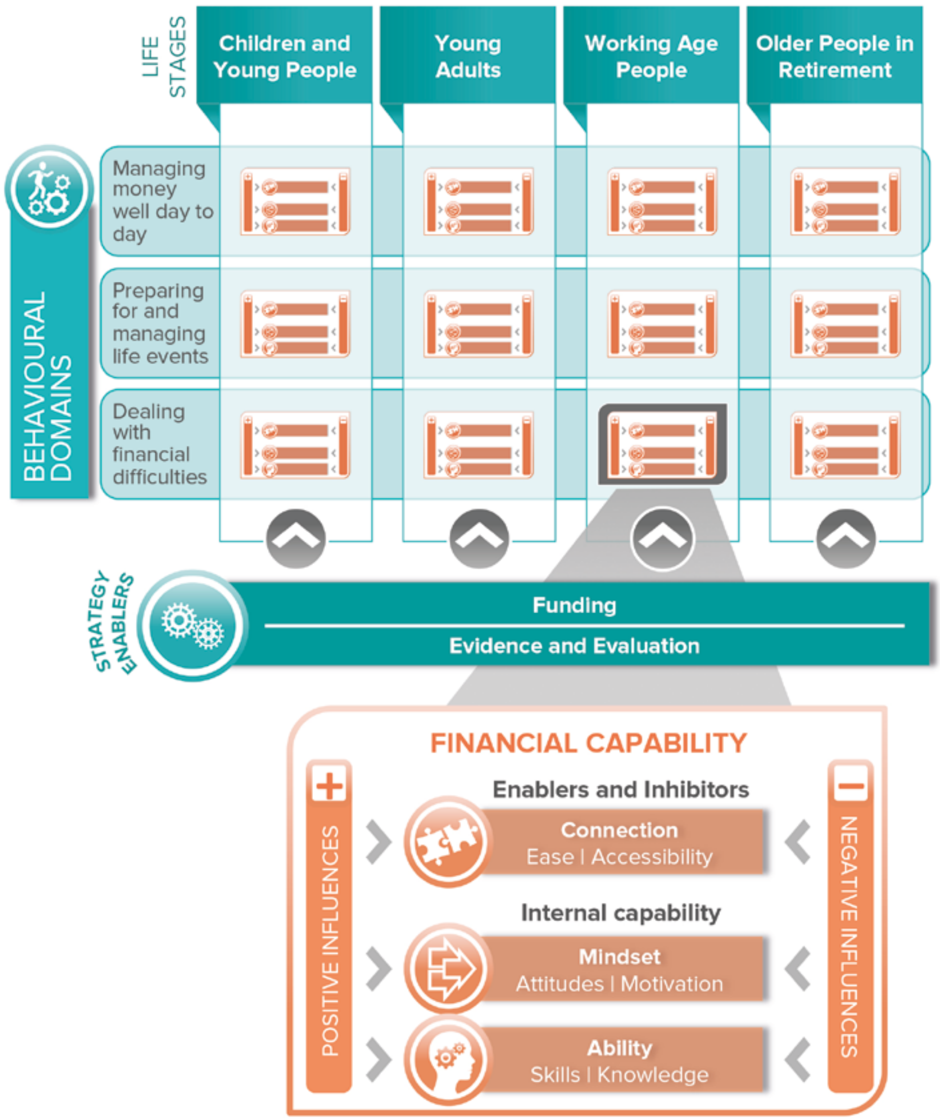
Levels of financial capability in the UK are too low

Based on extensive evidence and analysis, the Money Advice Service developed the 'financial capability framework', which captures the main elements of financial capability – the behaviours underpinning financial capability and the factors impacting it – in a single model, shown in Figure 1.[11] The Financial Capability Survey looks at current levels of financial capability based on this framework.[12]

The findings from this survey have in turn been used to identify where the Strategy needs to focus its efforts in improving financial capability.

Figure 1

The Financial Capability Strategy Framework



[11] The framework has been further amended to include Young Adults.

[12] See Appendix 3 for more information.

Findings from the Financial Capability Survey for the UK

Across the UK as a whole whilst most people are managing day to day, a significant minority are not. In the case of future life events, the majority of people are failing to prepare effectively. More detailed analysis and findings about levels of financial capability in Scotland can be found in part 2 of this document on pages 18-20.

Managing money day to day

61% have an approach to household income and expenditure that they think works well

56% save every or most months

68% could pay an unexpected bill of £300 from savings or spare money without cutting back

70% have unsecured debt of less than one month's income

Preparing for and managing life events

32% have some form of plan to meet a financial goal

34% have savings equivalent to at least three months' income

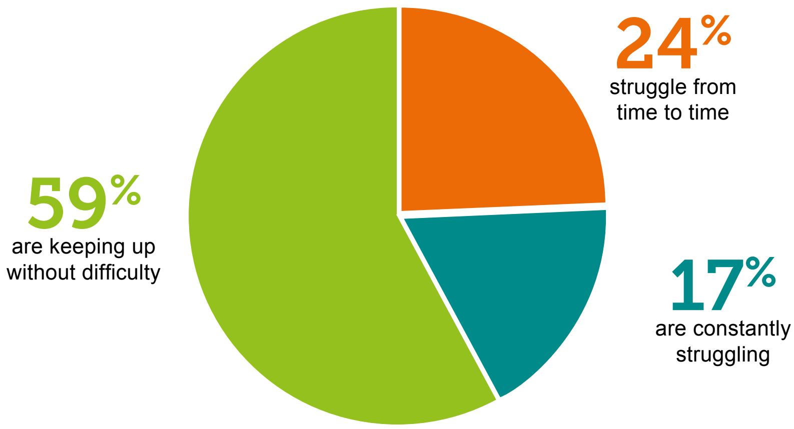
50% of working age people are currently paying into or have a previous pension

28% of older people in retirement have some form of plan for funding long term care

This tendency for consumers to be better at day-to-day management than planning ahead has been found in a number of previous research studies, suggesting it is not a function of the economic cycle.

Keeping up financially

Just over half of the population are able to keep up with their bills and commitments, without difficulty. Amongst the remainder there is a fairly even split between those who struggle sometimes and those who are in real difficulty – having either fallen behind with their bills and commitments or in the process of doing so.



One in six adults can be categorised as 'over-indebted' – that is, they find their debts a heavy burden or have missed payments for credit commitments or domestic bills in at least three of the last six months.

What the Strategy needs to achieve

The Strategy needs to result in significant improvements in financial capability over the course of the next 10 years.

The Financial Capability Board considered at length whether to set specific targets for the Strategy around improved financial capability (behaviours, skills, knowledge, attitudes, motivation and accessibility). They decided against doing so at this stage. The limited evidence about the impact of interventions on financial capability makes it difficult to assess what would be a challenging yet realistic outcome. Specific indicators of financial capability based on particular questions in the financial capability survey are likely to be subject to too much volatility to make meaningful assessment of progress possible.

Over the next six months, the Money Advice Service will focus on developing a small set of composite measures that combine the key indicators of financial capability. These will be monitored over the life of the Strategy, together with the impact of specific financial capability interventions.

This approach is consistent with that taken by the vast majority of other countries around the world which have developed financial capability strategies.

In the meantime, although we will not be assessing progress against targets as such, the focus will still be on measuring the impact of the Strategy against its aim of improving people's ability to:

- manage money well day to day,
- prepare for and manage life events, and
- deal with financial difficulties.

We will focus on developing people's financial skills and knowledge (for example improving their ability to use basic numeracy in complex situations); and their attitudes and motivation (for example, saving for tomorrow rather than spending today). This, combined with an inclusive financial system, can improve financial capability.

The two main vehicles for measuring the success of the Strategy will be:

- the Financial Capability Survey, which will measure the extent to which the behaviours, skills, knowledge, attitudes, motivation and accessibility described above change over time; and
- robust evaluation of specific interventions, targeted at specific groups of people, including the exploration of longitudinal studies.

Other research sources, such as the Office for National Statistics (ONS) *Wealth and Assets Survey*,[13] *Understanding Society*,[14] *Scotland's People: Results from the Scottish Household Survey*[15] and other qualitative research will also be useful to measure progress.

Part 2 of this document sets out how the Financial Capability Strategy applies to Scotland; the approach the Strategy will take; the role of the Money Advice Service; and how the Strategy will be delivered.

[13] http://www.ons.gov.uk/ons/rel/was/wealth-and-assets--experimental-/index.html
[14] https://www.understandingsociety.ac.uk/
[15] http://www.gov.scot/Resource/0048/00484186.pdf

Part 2

Delivering the Strategy in Scotland

How this Strategy applies to Scotland

Policy landscape

In 2010 the Scottish Government commissioned an in-depth analysis of the future delivery of public services, *The Christie Commission*.[16] The Scottish Government's response[17] and subsequent approach to public service reform closely reflects the key themes and aims of the Christie Commission and is built on four pillars:

- a decisive shift towards prevention;
- greater integration of public services at a local level driven by better partnership, collaboration and effective local delivery;
- greater investment in the people who deliver services through enhanced workforce development and effective leadership; and
- a sharp focus on improving performance, through greater transparency, innovation and use of digital technology.

These are key priorities for the Scottish Government over this current Parliament and will intensify the focus on improving service outcomes for the people of Scotland. There has already been the integration of health and social care and the introduction of Curriculum for Excellence in all schools.

The current *Programme for Government 2015/16*[18] aims to create a fairer and more prosperous nation, in which opportunities are open to everyone and where because of that, everyone is able to contribute their talent, skill and commitment. It includes a new Private Tenancies Bill which is intended to provide tenants with protection against excessive rent rises and steps will also be taken to deliver a new social security system,[19] as soon as the power is granted. The next phase of Curriculum for Excellence, a new National Improvement Framework for Scottish Education, will be developed and implemented, to ensure that all children are being equipped with the skills they need to get on in the world.

The Scottish Government has also opened up a national dialogue about how the country can be a fairer and more equal place to live. *Creating a fairer Scotland*[20] invites people to set out their vision of a fairer Scotland and suggest practical solutions, based on local and personal experience. Capturing the voices of those with direct experience of poverty and exclusion will be vital.

16 http://www.gov.scot/Publications/2011/06/27154527/0
17 http://www.gov.scot/Resource/Doc/358359/0121131.pdf
18 http://www.gov.scot/Resource/0048/00484439.pdf
19 The Scotland Bill is currently being considered by the UK and Scottish Parliaments and sets out the UK Government's proposals for the implementation of the recommendations of the five-party Smith Commission in November 2014. Some of the main provisions of the Bill cover: powers for the Scottish Parliament to set rates and thresholds of Income Tax; devolution of certain social security benefits, including disability and carers' benefits; and powers for the Scottish Parliament to adjust Universal Credit in Scotland including the housing element.
20 http://fairer.scot/about/

Scottish Government strategies and policies relevant to the Financial Capability Strategy

Early Years Framework[21]	Partners across Scotland have been building a shared understanding of why children's early years experiences are so important and how big a part they play in individual life outcomes. From this the Early Years Collaborative (EYC) was formed which is a coalition of Community Planning Partners, including social services, health, education, police and third sector professionals committed to ensuring that every baby, child, mother, father and family in Scotland has access to the best support available. There are currently over 650 government-supported EYC improvement projects underway all over Scotland. These plus the eight Key Change themes, are helping identify what works to make the biggest difference in children's lives including an income maximisation model that entails midwifes identifying and referring vulnerable families to local welfare benefits advice services.
Child Poverty Strategy[22]	The 2014 revision of the Child Poverty Strategy focuses on maximising household resources, reducing pressure on household budgets among low income families and improving children's wellbeing and life chances. It also promotes greater financial inclusion and capability to ensure people have a basic understanding of how to manage their money more effectively. The most recent report tells us that the number of households with children who report not managing well financially, and the proportion with access to a bank account, have been relatively stable since 2004.[23]
Getting it Right for Every Child (GIRFEC)[24]	This is the Scottish Government framework to improving the services that support the wellbeing of children and young people in Scotland. It should lead to early and effective intervention at any point in in a child's life where it is necessary to improve wellbeing outcomes. By acting to support wellbeing as soon as needs or concerns are identified and well before crisis points are reached, it ensures that every child is supported in a timely and proportionate way. GIRFEC underpins the recent Children and Young People (Scotland) Act 2014, the Early Years Framework, Curriculum for Excellence and a range of programmes to support improvements in services. GIRFEC is being threaded through all existing policy, practice, strategy and legislation affecting children, young people and their families.
National Parenting Strategy[25]	The National Parenting Strategy is all about valuing and supporting Scotland's parents as one of the single biggest ways of giving children the best start in life. This is about making it easier for parents to understand the positive difference they can make to their child's development, helping parents to feel confident in their ability to care for their children, feel reassured that help is available if and when they need support and ultimately making parenting an even more rewarding experience.

21 http://www.gov.scot/Resource/Doc/257007/0076309.pdf
22 http://www.gov.scot/Resource/0044/00445863.pdf
23 http://www.gov.scot/Resource/0048/00487238.pdf
24 http://www.gov.scot/Topics/People/Young-People/gettingitright
25 http://www.gov.scot/Resource/0040/00403769.pdf

National Youth Work Strategy 2014-19[26]	The ambition of this strategy is that all young people, in every part of Scotland, should have access to high-quality and effective youth work practice. Since the Youth Strategy of 2007 started this process there have been many achievements to date including youth work now being recognised as a vital component in a wide range of national policy areas such as justice, health, employability and education.
Developing the Young Workforce[27]	Since 2014 the Scottish Government has embarked on a seven-year national programme which will look substantially and permanently to improve the transition of all young people from education into sustainable, productive employment. The number of Modern Apprenticeship opportunities available each year has increased from over 21,000 starts in 2010/11 to over 25,000 in each of the last three years.
The Strategy for Justice in Scotland[28]	Within this strategy some of the focus includes building legal capability which will equip people and communities with the knowledge and resources to identify, prevent and resolve issues affecting their rights and responsibilities at the earliest opportunity and at the most appropriate level. Debt problems feature significantly in both criminal and civil justice.
Digital participation strategy[29]	The aim of this strategy is to grow levels of digital participation by individuals, so that Scotland has the highest rates of participation among UK countries by end 2015. In Scotland access to the internet has continued to grow steadily. The proportion of households with internet access in Scotland now stands at 76%, compared to 40% at the beginning of 2003.
Scotland's Digital Future: Delivery of Public Services[30]	The Scottish Government is working with the wider public sector to achieve public services that are high quality, continually improving, efficient and responsive to local needs. This strategy sets out the vision and ambitions to take this forward. An example of progress includes Skills Development Scotland's *My World of Work* which helps individuals find out what kind of job they would be suited to and how they can go about getting it.[31]
Digital learning strategy consultation[32]	This consultation will run until December 2015 and seeks views on the development of a Digital Learning and Teaching Strategy for Scotland.
Cyber resilience strategy consultation[33]	This consultation takes forward the Scottish Government's commitment to building cyber resilience amongst our communities, our businesses and our public services. With ever-increasing digital connectivity and opportunities come new risks.

[26] http://www.educationscotland.gov.uk/Images/YouthWorkStrategy181214_tcm4-823155.pdf
[27] http://www.gov.scot/Resource/0046/00466386.pdf
[28] http://www.gov.scot/Resource/0040/00401836.pdf
[29] http://www.gov.scot/Resource/0044/00448804.pdf
[30] http://www.gov.scot/Resource/0040/00407741.pdf
[31] http://www.myworldofwork.co.uk/
[32] https://consult.scotland.gov.uk/learning-directorate/digital-learning
[33] https://consult.scotland.gov.uk/cyber-resilience-policy-team/cyberconsultation

Levels of Financial Capability in Scotland are too low

The Financial Capability Survey is a nationally-representative survey of adults aged 18 and over and living in the UK. Presented here are some of the main findings from the survey for Scotland, which paint a broadly similar picture to that across the UK. More information about the survey can be found in Appendix 3 and more detailed findings are available **here**.

Managing money well day to day

Most people in Scotland are generally managing their money day to day, though a sizeable minority are not.

- Around four out of ten adults are not in control of their finances, i.e. they do not know their current account balance to within £50, do not feel their approach to budgeting works well or cannot keep up with their bills and commitments without difficulty.
- Four in ten adults have less than £500 savings.
- About one fifth (18%) have either revolved a credit card or used high-cost short-term credit in the last year.
- There is a gap between what people say and what they do. Many more say it is important to save for a rainy day than are currently doing it.

Without the basics in place, it is much harder to prepare for life events, such as having a baby, retirement or bereavement. People who do not keep track of money or have an effective budgeting system are less likely to be able to save and cope with income shocks.

The biggest differences in day-to-day money management are related to household income. People on middle and higher incomes are generally managing better than those on lower incomes. There are particular issues among people in receipt of welfare benefits, living in social housing, and in lower-income bands. But problems are by no means confined to these groups.

Preparing for and managing life events

People in Scotland score less well at planning ahead than at managing day to day.

- Around two-thirds of the population save every month or most months. But far fewer have a significant emergency fund: two-thirds don't have a savings buffer equal to or exceeding three months' income. Amongst working-age people this rises to three-quarters.
- Only half of working-age people are currently paying into a pension or are a member of a previous pension scheme.
- Only a quarter of over-50s have even the roughest plan for how they will pay for long-term care.

Again, things improve with income and there are specific groups of particular concern. But the lack of planning and preparation is widespread and not confined to a small number of groups in the population.

Dealing with financial difficulties

- Around a quarter of Scottish adults have unsecured debts equivalent to more than one month's income.
- 1 in 14 find their debts to be a heavy burden.
- Similarly, one in ten have fallen behind on or missed bill payments in three months out of the last six.

Factors that influence financial behaviour

Skills/knowledge

Relatively simple concepts and calculations are challenging for a sizeable minority. This may affect people's ability to manage their money effectively and choose financial products and services that meet their needs.

- One in six could not read a bank statement (and this does not appear to be linked to increased use of mobile banking).
- Two in five could not understand the effect of inflation on the real value of savings.
- Three in ten cannot perform a relatively simple calculation to add interest earned to a savings balance.
- People aged 75 and over tended to perform noticeably worse on many of these questions.

Attitudes/Motivations

- Only between a third and a half of adults in Scotland express positive financial attitudes to the future.
- A quarter of Scottish adults do not openly discuss their household finances regularly with anyone.

Ease and accessibility

To be financially capable, people need to be able to select products or services that meet their needs and access them via appropriate channels (digitally or offline).

Confidence and internet access often pull in different directions:

- Confidence in making choices about financial products and services generally increases with age – less than a third of 18-24s feel very confident, but this rises to six in ten among older people in retirement.
- Internet access, usage and willingness to use the internet for financial tasks such as banking are all high within the working-age population. But they drop off among older adults, especially those aged 75 and over.

This creates very different challenges for different groups: young adults lack confidence in making financial decisions but have fewer access issues, whereas people aged 70 and over mostly feel very confident but may be on the digital margins. In addition, some low-income groups lack both confidence and access.

The research shows that around two fifths of Scottish adults aren't confident managing their money. Those who manage less well tend to be younger working-age adults, particularly 18-24 year-olds, recipients of benefits and private renters but problems are not confined just to these groups.

These findings, together with other data analysis and extensive consultation with stakeholders in Scotland, have driven the priorities for action and action plans set out later in this document. The full detail which describes the interpretation of the evidence and how this leads to the identified priorities is contained within the relevant chapters in the more detailed Strategy document which can be found **here**.

For example, the recurring evidence about the importance of having a savings buffer, set against existing low levels of saving, have led to a real focus on improving our understanding of how best to encourage people to save. Likewise, the evidence about how and when to improve the financial capability of children and young people, combined with the evidence about low levels of financial capability amongst young adults, has led to the focus on those groups and the specific priorities and actions highlighted.

As the evidence builds and our understanding deepens, the Scotland Forum will further evolve the action plan, over the lifetime of the Strategy.

Financial Capability in Scotland

Managing money well day to day

SIX out of TEN have £500 or more savings

18% of people either revolve a credit card or use high cost short term credit

37% of adults do not know their current account balance **within £50**

Preparing for life events

Only **1 in 4** of the working age population have **savings of 3 months income or more**

3 in 10 people have financial goals and a plan in place to achieve these

Only **27%** of people of retirement age have any form of **plan for funding long term care**

Just under **6 in 10** people with families have life cover

12 million **people in the UK** are not saving enough for their retirement *(DWP, 2014)*

Dealing with financial difficulties

1 in 7 people in Scotland are over indebted *(Money Advice Service/ CACI, 2015)*

Just under **1 in 6** over indebted **people in the UK** are currently seeking help *(Money Advice Service, 2013)*

Financial capability

17% of people could not read the balance on a bank statement

44% people of retirement age had **not been online in the past week**

When it comes to money A **QUARTER** of people say they prefer to live for today, rather than plan for tomorrow

38% of people do not understand the **impact of inflation on the real value** of money

Delivering the Strategy

Collective impact

'Collective impact' is where large-scale social change comes from cross-sector co-ordination, not isolated interventions of individual organisations.

The Strategy is built around the concept of 'collective impact', a strong emphasis on evidence and evaluation, and a clear delivery plan.

As a minimum, collective impact involves a co-ordinated approach to ensure that the resources devoted to building financial capability are focused on interventions that are proven to work and will achieve a significant impact in improving financial capability. The Strategy has already put in place a suite of products and services to promote and support this.

In the long term this approach should deliver the transformational change that is needed and that the Strategy is designed to achieve.

Since the Strategy is based on collective impact, with a wide range of organisations involved in its delivery, there needs to be an effective delivery framework that is capable of co-ordinating these combined efforts, and will monitor and evolve the action plans outlined in this Strategy. This delivery framework is shown in Appendix 4, and more detail can be found **here**.

Evidence, evaluation and the Money Advice Service

This Strategy needs to make a real difference. It places a strong emphasis on developing the evidence base, including through piloting interventions and evaluating their success to identify where and how resources across the financial capability sector should be targeted to maximise impact.

Although more is known than when the original Financial Capability Strategy for the UK was launched by the Financial Services Authority in 2006, there are still significant gaps in our knowledge about what really works, at a UK, Scotland and individual intervention level.

The Money Advice Service will take on a role akin to a 'What Works Centre', seeking to improve and build understanding of the effectiveness of interventions designed to improve financial capability. It will do this by focusing on increasing the use of evidence about what works, helping build the capability and capacity of organisations to evaluate their interventions against common outcome measures. It will prove what works (and what doesn't) by partnering with others to design, fund and robustly evaluate initiatives which show the potential to improve financial capability.

More detail on this work can be found on pages 25-30.

Steering Groups

A number of Steering Groups are being established to guide the delivery of the different aspects of the Strategy. The Money Advice Service Scotland Forum will guide delivery of the Strategy in Scotland.

The Scotland Forum was set up in 2012, to act in an advisory capacity to the Money Advice Service. The current members of the Scotland Forum have agreed to widen their scope and membership to ensure that the recommendations within the Financial Capability Strategy for Scotland and the UK are delivered and remain relevant to the unique requirements, funding arrangements and stakeholders within Scotland.

Steering Groups have also been established at a UK level for each of the following:

- Children and Young People;
- Young Adults;
- Working-age People;
- Savings;
- Retirement Planning; and
- Older People in Retirement.

There will be separate groups, similar to the Scotland Forum, operating in Wales and Northern Ireland.

The Debt Advice Steering Group (DASG) – already established by the Money Advice Service Board – will be the main mechanism for delivering the priorities of the Strategy relating to people with financial difficulties. There are two representatives on this Group from Scotland who will feed into the Scotland Forum. The Money Advice Service's Research and Evaluation Group (REG) will provide expert advice and guidance in relation to the evidence and evaluation strand of the Strategy. The Money Advice Service is considering the creation of an expert group to advise on financial technology ('fintech') and how this can be harnessed to help achieve the aims of the Strategy.

The Steering Groups will provide guidance and recommendations to the entire sector on their specific theme. This will include analysis and insight of: evidence around what works; progress and evolution of the action plan; and prioritisation of activities and resources needed to maximise collective impact. The Steering Groups will be made up of organisations, from across all sectors, such as Government departments, regulators, research bodies, voluntary-sector organisations, trade associations, consumer groups and financial services firms. Wherever possible representatives from Scotland will be asked to sit on the Steering Groups listed above.

Many respondents to the consultation on the Draft Strategy raised questions about what should be done to help people in vulnerable circumstances. Responsibility for taking account of vulnerability will be formally incorporated into the Terms of Reference for each of the Steering Groups, including the Scotland Forum.

As the evidence of what works builds, the Scotland Forum and Steering Groups will need to evolve the action plans. The Steering Groups will provide updates to the Financial Capability Board on a regular basis and the Strategy as a whole will be formally reviewed in 2020 and 2025.

The Financial Capability Board will oversee the continuing development and implementation of the Strategy, seeking to influence others to support it. The Board is made up of senior and influential figures from a range of sectors, and will be supported by the Money Advice Service who have led the development of the Strategy and will continue to provide the secretariat to the Financial Capability Board and the Steering Groups. Scotland is represented on the Financial Capability Board.

The development of the Action Plan

The Draft Strategy proposed priorities for each of the different life stages contained within the financial capability strategy framework. The Consultation Response set out next steps in each area – children and young people; young adults; working-age people; older people in retirement; and people in financial difficulties.

A range of organisations and individuals have worked with the Money Advice Service Scotland Forum to develop these priorities into an action plan for Scotland – setting out the interventions it is believed will have an impact on knowledge and skills, attitudes and motivations or ease and access of financial products and services.

The initial action plan should not be viewed as a full set of interventions that will 'solve' the issue of low financial capability. There is still far more work to be done to understand what works in improving financial capability. The action plan presented in this document is based on the priorities for action that have been identified from the current evidence base and by stakeholders in Scotland. This will inevitably change and evolve over the lifetime of the Strategy, as will the action plan.

The UK-wide Strategy reflects the devolved nature of certain aspects of policy relating to financial capability. The UK Strategy action plan, which can be found **here**, includes a mix of initiatives, some of which will apply across the UK, and some of which are focused on England. Action Plans have also been developed for Wales and Northern Ireland.

There is a good opportunity for each of the nations within the UK to work closely together, to learn from each other, and to spread best practice.

Delivery – next steps

The Money Advice Service, Financial Capability Board, Scotland Forum and Steering Groups will work together to inform, guide and co-ordinate efforts aimed at driving up financial capability. They will champion the Strategy, and build and share evidence on what works in driving up financial capability.

But this will not be enough on its own to achieve the aims of the Strategy. Success will require the combined, concerted and co-ordinated efforts of a wide range or organisations and individuals. The Strategy is a call for action to all those with an interest or ability to contribute to improving financial capability. All organisations in Scotland are asked to consider how they can contribute to the collective action needed to achieve the aims of the Financial Capability Strategy, and to contribute to building the evidence base on what works by:

- committing to applying the IMPACT principles set out in this document;
- conducting robust and comparable evaluation of the impact of actions;
- sharing the results of evaluation via the Money Advice Service Evidence Hub; and
- using that evidence base as it evolves to drive resources towards what the evidence shows works.

To support the Strategy the Money Advice Service has commissioned an economic analysis to understand the impact of improved financial capability on the economy. This will contribute to the evidence base and help inform future financial capability interventions.

Part 3 of this document sets out the current evidence and key issues for each of the key life stages and themes of the Strategy. It includes sections on: evidence and evaluation; children and young people; young adults; working-age people; retirement planning; older people in retirement; people in financial difficulties and ease and accessibility. Each section also sets out the priorities for action, based on the current evidence and extensive feedback from stakeholders. A detailed action plan, linked to the identified priorities for Scotland can be found in Appendix 1.

Part 3

Evidence and priorities

Evidence and Evaluation

- Improving evidence and evaluation is at the heart of the Strategy – it is critical that service design and funding decisions are based on robust evidence of need and what works.
- There has been some progress made in developing a strong evidence base and improving evaluation practice, but there are still gaps in our understanding of what works to increase financial capability.
- The Money Advice Service will take on a role akin to a 'What Works Centre', seeking to enhance the effectiveness of interventions designed to improve financial capability. It will do this by focusing on increasing the use of evidence about what works, helping build the capability and capacity of organisations to evaluate their interventions using common outcome measures, and partnering with others to design, fund and evaluate initiatives which show the potential to improve financial capability.
- The Money Advice Service will support an evidence driven sector by:
  - promoting good practice through the IMPACT principles to promote good practice;
  - co-ordinating research and evaluation across the sector to ensure resources are targeted at filling key evidence gaps;
  - developing a Common Evaluation Toolkit to help providers to consistently measure and report outcomes; and
  - continuing to publish and disseminate impact evaluation through the Evidence Hub and accompanying Insight Library.
- The Money Advice Service will contribute to the evidence base, for example, by working with Money Advice Scotland to pilot the evaluation toolkit with their financial capability team.

Introduction

Evidence and evaluation is fundamental to the success of the Strategy. In order for the financial capability sector to make the best use of finite resources, it is critical that service design and funding decisions are based on robust evidence of need and what works.

The aim of this element of the Strategy is to develop a highly effective financial capability sector, underpinned by a robust evidence base in which resources are directed to areas of unmet needs and interventions which have been proven to work. And to ensure that the impact of innovative new programmes is evaluated in a rigorous and consistent way.

Money Advice Service analysis suggests that around 7 in 10 UK-based financial capability programmes are evaluated or assessed in some way. There are pockets of excellent practice, but much of the activity focuses on monitoring reach, outputs and customer satisfaction rather than measuring outcomes and impact. It is also difficult to compare the results from published impact evaluations due to the diverse and sometimes significantly different ways in which organisations define and measure financial capability outcomes.

There remain significant gaps in our understanding. Many existing interventions have not been rigorously evaluated and the evidence that does exist is not always taken into account when designing services or making funding decisions. To achieve the sustained cultural change needed, the Money Advice Service will take on a role similar to a 'What Works Centre', working with and through a range of strategic partners from across the financial capability and research and evaluation sectors.

The Money Advice Service will:

- support an evidence-driven sector by providing guidance and practical tools that will support impact evaluation and evidence-based commissioning; and
- contribute to the wider evidence base by:
  - developing and sharing insight about levels of financial capability at the UK population level and identifying areas of unmet need – this will primarily be done through the Money Advice Service's Financial Capability Survey and wider strategic research; and
  - partnering with others to design, fund and evaluate initiatives which show the potential to improve financial capability.

The Financial Capability Framework on page 11 lies at the heart of the approach to both intervention and population level measurement. It enables linkages between the two types of insight to be made and creates a shared language for success.

Context

Important advances have been made in the last few years, both within the UK and internationally, in the understanding of the most effective ways to improve financial capability.[34] Yet our shared understanding of people's financial behaviour and what drives it still lags significantly behind other behaviour-change fields, such as health. Greater co-ordination of research and evaluation activity is needed to minimise duplication and ensure the focus is on filling agreed core evidence gaps.

Funders and practitioners are largely supportive of an increase in evidence-based commissioning. Given current gaps in the evidence base, and a lack of resource and skills amongst frontline providers to capture and interpret evaluation data, more work is needed both to build the evidence base and the capacity to conduct robust evaluation.[35]

Supporting an evidence-driven sector

The Money Advice Service will improve the effectiveness of the wider sector by supporting stakeholders in the appropriate generation and use of evidence. This will require sector-wide cultural change and an environment in which openness and innovation can thrive, with providers willing to share information on approaches that have not worked as well as those that have.

The Money Advice Service will work with the sector to promote good evidence and evaluation practice in the following ways:

- supporting organisations who sign up to the **IMPACT principles** in embedding and promoting good practice;
- **co-ordinating the sector** to promote evidence-based practice and ensure evidence gaps are filled without duplication;
- support consistent evaluation by promoting the use of the **Financial Capability Outcomes Frameworks**;
- providing guidance and practical tools to help practitioners evaluate their provision through the **Common Evaluation Toolkit**; and
- supporting the dissemination of evidence through the UK Financial Capability **Evidence Hub**.

[34] The Financial Capability Evidence Hub includes robust impact evaluations of financial capability provision, using a standards-of-evidence rating to indicate the quality of the evaluation approach.

[35] The Financial Capability Strategy Consultation Response and Next Steps document and submissions to the consultation can be found at www.fincap.org

IMPACT principles

The Money Advice Service has developed IMPACT principles. These principles set out the high-level approach to evidence and evaluation that the Strategy wants to embed in all organisations at all levels, particularly within funder, commissioning and delivery organisations. They have been developed to encourage organisations across the sector to make a public commitment to maintaining the evidence base and ensuring that robust evidence is at the heart of everything they do. Signatories to the IMPACT principles will act as impact champions, helping to share and embed best practice amongst the wider sector.

Make an IMPACT: principles for financial capability funders and providers

I

Be an Impact champion

Whatever your role, you consider evidence and evaluation at every stage of commissioning and delivering financial capability programmes, and are a proactive champion of the approach to others. This includes factoring the evidence of need and what works into funding decisions, building evaluation in from the start of new interventions, and sharing effective practice around evidence and evaluation with others.

M

Mind the gap

When making decisions about the programmes you fund or deliver, you take into account the 'gaps' in both current provision and knowledge about what works. This will help to ensure that your initiatives compliment rather than duplicate programmes that are already being delivered and will enable you to focus innovation, research and evaluation activity on filling key gaps in knowledge about the most effective approaches for different groups.

P

Properly resource it

You allocate sufficient resources to impact and process evaluation activity to ensure it is high quality and that the findings are reliable, but you also make sure the scale of the evaluation remains proportionate to the programme in question. If you are a funder, this will involve building resource for evaluation into funding arrangements.

A

Add to the wider evidence base

You are committed to sharing the learning about what has worked - and what hasn't – from the evaluation of your programmes with the wider financial capability sector through the Financial Capability Evidence Hub (as well as other channels). This involves sharing information on the nature of the programme or initiative you deliver, the resources required to deliver it, the number of people and who it reaches, as well as what impact it has had.

C

Be Consistent when measuring outcomes

You use the financial capability shared outcome frameworks when developing your new programme evaluations (unless there is a clear justification for not doing so). This will help improve the consistency in the way the sector measures its impact and will enable stronger conclusions to be made about the most effective means of improving people's financial capability.

T

Take Time to understand the results and their implications

You make learning from and acting on the lessons from evaluation a priority to ensure you continuously improve the programmes you fund or deliver. You use the evaluation findings to both help adapt and refine any ongoing initiatives, as well as informing the design and commissioning of new ones; designing new interventions to deliver specific identifiable outcomes. You demonstrably change as a result of what you have learnt, becoming a true IMPACT champion.

Co-ordinating the sector

The Money Advice Service will help to co-ordinate the sector's research and evaluation activity. This will ensure that new research targets key knowledge gaps and delivers actionable insight to the sector, thereby maximising the impact of research spend.

This Strategy also acknowledges the vital importance of securing buy-in from funders and commissioners to achieving sustained change over and beyond the course of the Strategy. This will require bringing them on board with the importance of robust and consistent impact evaluation and the use of evidence to drive commissioning. The Money Advice Service has co-ordinated two funders' summits with funders of financial education and services aimed at children and young people. One of the aims of the summits was to promote the IMPACT principles to promote better generation and use of evidence across the sector, with the intention that funders will go on to encourage the organisations they fund to embed good evaluation practice into the work they do.

Common evaluation toolkit

Improving evaluation activity will help providers to understand what outcomes they achieve, demonstrate their impact and continuously improve their services. The Money Advice Service is currently developing the Common Evaluation Toolkit which will increase the consistency and quality of impact evaluation and support proportionate and tailored evaluation. It will help organisations move from measuring reach and outputs to outcomes and impacts.

The Common Evaluation Toolkit will be flexible enough to apply to a wide range of interventions, including both those seeking to affect long-term behavioural change and those just looking to prompt a single action, such as accessing advice. It will also apply to different beneficiary groups and take account of the fact that some interventions differ in the degree to which they seek to change attitudes, knowledge and skills. It will consist of shared outcome frameworks, practical tools and guidance.

Outcomes frameworks

There are four 'outcomes frameworks' for differing life-stages and beneficiary types. The frameworks for Adults and for Children and Young People were developed by New Philanthropy Capital in collaboration with the Money Advice Service. The Money Advice Service has since developed two further frameworks for Teachers and Parents (developed with pfeg – part of Young Enterprise, and NatCen respectively). The figure below outlines the intended intervention type for each framework; these can be accessed on the UK Financial Capability site.

Each outcomes framework will have a corresponding set of Measurement Tools (e.g. survey questions) to measure the 'distance travelled' against these outcomes.

Figure 2: Outcomes framework

Adults	Children & Young People	Parents	Teachers
Interventions that target adults aged 18 and above, with amended indicators for Older adults and scope to develop further indicators for Young Adults as required.	Interventions that target Children and Young People aged 3-17 with sets of age appropriate indicators for different age groups.	Interventions that seek to enhance Parents' capacity to support and develop their children's financial capability.	Interventions that seek to enhance Teachers' skills, knowledge and understanding to drive the effictiveness of financial education.

Practical tools and guidance

Alongside the outcomes frameworks, users of the Common Evaluation Toolkit will have access to:

- guidance and a template for developing a **Theory of Change** to enable users to determine which outcomes their intervention is seeking to effect;
- a **Decision Tree** tool which will help providers to decide upon the most appropriate evaluation approach; and
- **guidance** to support providers in using the toolkit and in effectively evaluating their provision. To avoid duplicating existing work, users will be signposted to external resources and training on evaluation best practice where available.

Piloting of the Common Evaluation Toolkit is underway and will continue through to Spring 2016. The Money Advice Service is piloting the toolkits with providers, schools and funders delivering a range of types of intervention. The Money Advice Service is also working with Age UK to develop and pilot indicators for Older People, and with Project Oracle to pilot the Children and Young People toolkit with providers of financial capability provision for young people. Further details of piloting activity can be found in the action plan. Based on learning from the pilots the toolkit will be adapted before final publication.

Whilst there are a large number of outcomes which can be measured using the toolkit, it is not expected that all these would be measured when evaluating a particular intervention. Rather the outcomes frameworks incorporate a wide range of key outcomes providers may want to measure, to ensure they are able to identify an appropriate set of indicators and measurement tools.

Evidence Hub

The Money Advice Service launched the Evidence Hub in March 2015 to make it easier for everybody involved in financial capability to access evidence of what works in improving financial capability. All evaluation reports placed on the evidence hub are assigned a Standards of Evidence rating, in line with best practice established by What Works Centres including the Early Intervention Foundation and the Education Endowment Foundation. The Standards of Evidence rating indicates whether the intervention itself was effective and also provides an assessment of the robustness of the evidence, based on the evaluation methodology used. The rating signifies how certain we can be that the observed effect on beneficiaries' financial capability resulted from the intervention itself rather than other external factors. The Standards of Evidence rating acts as a 'quality mark' for evaluation, denoting good practice and identifying evaluation approaches which should be replicated more widely.

The Money Advice Service has recently launched a revised version of the Evidence Hub, based on feedback from users on their expectations and experience of use. On the whole, the feedback received has been positive. Some changes to functionality have been made, together with further clarification around the purpose of the Hub and the Standards of Evidence rating. Users wanted a wider range of interventions and different types of evidence, beyond impact evaluation, in addition to further curation of content, in particular higher-level interpretation of the Hub content and implications for funding decisions.

In response to user feedback the Hub will develop to include higher-level summaries of key learnings which further interpret the evidence and also include an Insights Library where other types of evidence can be stored. This will help funders identify the key characteristics of the kinds of intervention that work, and direct funding accordingly.

Insight library

The Money Advice Service will lead on the development of the Insight Library, which will sit within the Evidence Hub, but contain other forms of evidence aside from impact evaluation (e.g. national level survey data, evidence of need and service gaps, process evaluations and qualitative insight). Through the creation of the Insight Library and development of learnings summaries the Money Advice Service will significantly expand the 'What Works' area to provide the sector with an accessible repository of key evidence to inform decision making, as well as thought leadership that brings to the foreground key learnings or implications for programme and research design. The Money Advice Service will work closely with key stakeholders and funders, both in the development of the Insight Library and ongoing curation to ensure that the content delivered is useful and addresses pertinent questions for the sector.

Contributing to the wider evidence base

There are significant gaps in our understanding of the UK's population's financial capability and the best ways to improve it. The Money Advice Service will contribute to the evidence base by running the national Financial Capability Surveys of adults and also for children and young people to help us better understand the profile and distribution of the UK's financial capability.

The Money Advice Service will aim to partner with others to fund interventions that will be robustly evaluated to help fill key evidence gaps. For example, there is limited evidence on which interventions work to improve the impact parents can have on children's financial capability so the Money Advice Service is working with Big Lottery in Wales and other partners to carry out 'Talk, Learn, Do: Parents, Kids and Money' pilots to test the most effective ways to support parents to improve their children's financial capability. More details can be found on page 8.

The Money Advice Service will also help to co-ordinate the activities of the wider research sector and focus them on filling key evidence gaps (informed by content and gaps in the Evidence Hub and Insight Library), and reducing duplication through our Money Advice Service Research and Evaluation Group, and wider research gatherings. We will encourage organisations to share information about current projects, through the Financial Capability website, and broker relationships between researchers looking to evaluate interventions and front-line providers delivering those interventions.

The Money Advice Service will monitor change across the sector using both qualitative and quantitative approaches to evidence the extent to which the strategy is prompting sector-wide change and uptake of good evaluation practice.

Children and Young People

Adult financial capability is developed throughout childhood and adolescence.

It is clear that there are 'teachable moments'; that the messenger matters; and that 'just-in-time' education works.

In Scotland the Strategy will focus on:

- understanding what works, including ensuring that there is systematic identification and addressing of research gaps and wide implementation of outcomes-focused evaluation;
- delivering targeted provision to those who need it most by regular monitoring of children and young people's needs and of the provision available;
- ensuring enhanced provision targeted at 3-7 year-olds and 17-18 year-olds and an additional focus on financial education in the senior phase;
- supporting schools to deliver financial education effectively;
- ensuring that there is a range of easily accessible interventions that improve financial capability; and
- encouraging greater co-ordination of interventions delivered by stakeholder organisations.

Introduction

Adult financial capability is a direct consequence of what is seen, learned and experienced in childhood and adolescence but too few children and young people are fully equipped with the mindset and skills needed to navigate the adult world of financial responsibility. In Scotland, 'Curriculum for Excellence' was introduced in 2010, through which young people in education are encouraged to develop better money management skills, as part of a wider focus on numeracy and social studies.

Currently the evidence for whether financial education is working is mixed. What is clear is that effective approaches tend to be practical, relevant and delivered by someone trusted. This is why the priority for the first few years of the Strategy will be understanding what works and then scaling up effective interventions more widely.

The Strategy will acknowledge and work alongside the Scottish Government and Education Scotland to improve outcomes in the curriculum and also link to the Scotland Child Poverty Strategy, both directly through interventions to improve children's financial capability and more broadly by seeking to improve parents' financial capability.

This section of the Strategy provides an overview of evidence and key issues for children and young people. It is focused on preventative education in advance of the transition to independent living, which is covered in the following 'Young Adults' section. It is acknowledged that there is no set age at which this transition begins to happen and there may be some areas of overlap, for example, young people attending further education colleges.

Key issues and evidence

How financial capability is learned

Financial capability is learned (or not) through what is seen in the home, what is taught and experienced. The evidence suggests there are a number of issues that need to be considered to ensure financial capability is developed well before the age of 18.[36]

[36] See Children & Young People evidence paper, Money Advice Service, 2014 for more information

There are teachable ages

The Money Advice Service commissioned research in 2013 to understand the habits that can impact on financial capability later in life. This found that 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 attitudes about, and our ability to manage our money, potentially from the age of three years old.

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 value money above all can be shaped by the age of seven. Other aspects of financial capability, such as the ability to override your habitual responses reach adult levels by the age of 12.[37]

Children's self-control ability is as likely as IQ and socio-economic status to predict adult financial wellbeing outcomes such as future savings and investment behaviour, home and retirement account ownership, and self-reported money and credit management success.[38] The ages of 3 to 6 should focus on developing the appropriate executive functions, e.g. self-control; 6 to 12 on financial socialisation and basic skills development, e.g. understanding consumer culture; and 13 and over on experiential learning and just-in-time financial skills education, e.g. managing your own money with parental oversight.[39]

The messenger is important

Parents and carers play a key role in developing their child's financial capability, providing the main opportunity for their children to see, talk about and experience money. Below the age of seven, children are most receptive to their parents' advice.[40] In turn they may be able to influence their parents' behaviour through what they are learning. Throughout adolescence, young people are still most likely to turn to their parents for advice, but peers become increasingly important. In particular, there are promising indications that slightly older peers who have experienced money problems and resolved them could be an effective messenger for those on the cusp of financial independence.[41]

Learning has to be put into practice

Education that takes place just before making a financial decision has the largest impact on financial behaviour, meaning that skills based interventions for 17-18 year-olds are an absolute necessity.[42] Almost everyone will make mistakes as they learn to manage their own money – whether that's forgetting to budget for an important item or impulse spending affecting a longer-term goal. The most financially capable young adults are those who have had the opportunity to make those mistakes before the age of 18 by having some of their own money to manage and experiencing some elements of financial responsibilities and consequences. Those who did not have that opportunity found that the first time they had to manage their own money with any real responsibility and consequences attached, they did so in an environment where the stakes were much higher and the consequences serious and potentially long-lasting.[43]

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37 Habit formation and learning in young children (Money Advice Service, 2013)
38 A Gradient of Childhood Self-Control Predicts Health, Wealth, and Public Safety, Moffitt et al, (Proceedings of the National Academy of Sciences, 2011)
39 Foundations of Financial Well-Being: Insights into the Role of Executive Function, Financial Socialization, and Experience-Based Learning in Childhood and Youth, Drever et al, (The Journal of Consumer Affairs, Spring 2015)
40 ibid
41 It's time to talk: Young people and money regrets (Money Advice Service, 2014)
42 The Effect of Financial Literacy and Financial Education on Downstream Financial Behavior, Fernandes et al 2013
43 It's time to talk: Young people and money regrets (Money Advice Service, 2014)

Financial education in Scotland

Through Curriculum for Excellence, young people are encouraged to develop better money management skills, including budgeting and understanding credit and debt. There are many initiatives to support this such as the National Numeracy and Maths Hub, which is a virtual-learning environment for practitioners with champions in each local authority. The Scottish Government's 'Read, Write, Count' literacy and numeracy campaign aimed at P1-3 was launched in August 2015. There are also support materials for learning and teaching financial education provided on the Education Scotland online service (support materials for learning and teaching), and further support will be available on 'Glow' (the schools' intranet) which includes the financial capability module developed by Money Advice Scotland.

Financial education has been in place in schools and on the curriculum for a number of years, however the last evaluation of financial education in Scotland was in 2010, so at present there is no clear understanding of what works, how well it is embedded, or how well it is being delivered.

As part of the Government's 'Making Maths Count' programme, two new groups have been formed.[44] The remit of the first group is to consult directly with maths teachers in secondary schools to assess what more can be done to ensure both teachers and pupils get the support they need in this key area of the curriculum. The second group has been set the challenge of making maths matter more to Scotland. This group will provide new ideas on promoting the benefits of maths and numeracy and how this can improve the quality of education and raise attainment.

Currently, practice varies widely and more work is required to understand the approaches adopted in different areas and schools and what has been proven to work. Recently Education Scotland carried out an evaluation exercise at St Catherine's Primary School in Glasgow who had a themed money event 'Financial Trade Fortnight' looking at whether this had an impact on learning about money. In general terms the findings were positive and showed how engaged the young children and their families became in understanding money. Further evaluations are planned across all education sectors; these will focus on the importance of financial education as part of interdisciplinary learning.

Glasgow City Schools Health and Wellbeing Survey 2010[45] identified that just under two-fifths of pupils had received lessons on money and savings. Despite this, three-quarters of pupils had savings, with over half saving in a bank or building society and 4% in a school credit union or saving scheme and around 30% saving elsewhere, most commonly at home.

Consistency and co-ordination of financial capability interventions by stakeholder organisations

There are already a lot of interventions in place, but practice varies widely and there has been no clear identification of what works well. There are examples of excellent practice but good interventions may not be reaching as many children as they could.

There are a number of other programmes designed to engage pupils in financial capability, many of which are provided by financial services organisations and educational charities including Royal Bank of Scotland (RBS), the Chartered Banker Institute's Financial Education Programme and Stewart Ivory. The Strategy will look to help co-ordinate this work across the sector ensuring geographical reach and encouraging them to use the Common Evaluation Toolkit and grow the evidence base on the Evidence Hub.

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[44] http://news.scotland.gov.uk/News/First-meeting-for-maths-group-1f4b.aspx

[45] http://www.nhsggc.org.uk/media/226265/Glasgow%20City%20Schools%20Health%20and%20Wellbeing%20Survey%20 2010%20South%20Sector%20Report%20Final%20Version.pdf

Credit unions are actively involved in schools – they have 50,000 junior savers in Scotland, and actively support pupils to set up and run savings schemes. ABCUL Scotland is working on a ‘Credit Union Charter’ which will emphasise the need for schools and education authorities to support making credit union partnerships a success. This includes establishing a credit union champion in every primary and secondary school across Scotland to lead that school’s partnership with a local credit union and facilitate pupils’ involvement.

The Scottish Financial Education forum, supported by Education Scotland, is an information sharing forum bringing together a wide range of stakeholders including local authorities, the private sector and a range of third-sector organisations. A key focus for 2016 will continue to be on the connections between financial capability and employability. Links will also be made to the increasing importance of digital technologies as a support for learning and as essential tools for managing finances. An annual financial education conference could then make the lessons learned from the forum available to a much wider audience.

Education Scotland will continue to promote opportunities for learning and teaching through ‘Money Weeks’ where these are delivered as part of a school’s focus on high-quality interdisciplinary learning. They will also support teachers to build financial education into the curriculum particularly across numeracy and social studies.

Interventions outside the school environment

Peers and family members play a key role in reinforcing financial education and providing role models. As noted in the UK Strategy for Children and Young People, there is evidence that external influences have a significant impact on the money habits learned between the ages of 3 and 7. In particular the forming of habits at such a young age suggests that ensuring appropriate interventions in this environment is of clear benefit.

The Money Advice Service parenting pilots (see page 11) will look to understand how parents and carers roles as influential messengers can be better used to develop financial capability. The results of these pilots, will be fed into and contribute to the Financial Capability Strategy for Scotland.

As children get older there are a range of settings in which role models could be used to deliver key messages, for example, it has been identified that there are opportunities to leverage the likes of youth centres as ways of engaging this age group.

Priority areas for action

The Scotland Financial Capability Forum will consider the following priorities for action:

- greater evaluation and understanding of what interventions work to deliver financial education;
- support for schools to deliver financial education including a renewed emphasis on continuing professional development opportunities for teachers in the context of the National Improvement Framework;
- greater co-ordination of interventions delivered by stakeholder organisations to understand and share best practice; and
- greater support for interventions targeted at families at home and delivered by peers.

Actions linked to these priorities can be found in Appendix 1.

The Children and Young People Steering Group will take forward any actions that apply across the UK, details of the initial action plan is available **here**. If activities are identified with a relevance to Scotland, the Children and Young People Steering Group will invite a representative from the Scotland forum to sit on the Steering Group.

Young Adults

- Young adults can face a difficult transition towards independent living, which begins typically between the ages of 16 and 18, and continues to their mid-20s.
- The Financial Capability Survey confirms previous research that suggests young adults typically display lower levels of financial capability than older age groups.
- There remains a lack of consistency in ensuring that the needs of financially excluded and vulnerable groups are met. Furthermore there is a lack of evaluation of current interventions at a national level to understand best practice.
- An increasing number of young adults are getting into difficulty with debt. In particular there is a need to bridge the gap between leaving school and starting work or training. There also needs to be greater consistency in the delivery of interventions in further and higher education where financial capability interventions tend to be more local and institution-led.
- There are a range of key influencers and role models which can be used to deliver interventions; for example, Young Scot has significant experience of co-designing money advice interventions with young people. The Strategy will support this model by making more of youth organisations and local authorities to develop financial capability programmes that are suitable for, and delivered by young people.

Introduction

Young adults, as they leave school[46] or other statutory settings, will face major changes in the coming years to the policy, economic and social landscape within which they will start managing money day to day and making critical financial decisions about their future. The degree of financial capability they display during this transition can have a major bearing on their resilience and wellbeing throughout their adult lives.

In Scotland, engagement with stakeholders and research has shown three major areas this strategy should aim to tackle:

- the significant increase in young adults facing difficulties with debt;
- the gap in provision between school and work; and
- the needs of vulnerable and financially excluded groups – including NEETs (those Not in Education, Employment or Training – also called the More Choices, More Chances group), ethnic minorities, young offenders, looked-after children, care leavers, and disabled young adults.

This section of the Strategy provides an overview of evidence and key issues faced by young adults as they transition to independent living. There is no set age at which this transition begins to happen and so there may be some areas of overlap with the previous Children and Young People section, for example, young people attending further education colleges.

The areas identified as priorities for action in this Strategy are applicable to meeting the financial capability needs of young adults across Scotland. The Financial Capability Strategy document for the United Kingdom provides more detail of activities targeting young adults that may also be relevant in Scotland. This can be found **here**.

Existing interventions across Scotland have been identified by various forums and stakeholders and can be found **here**.

[46] Financial education in school settings is dealt with in the sections on Children and Young People.

Key issues and evidence

Financial Capability Survey Findings

Around half (53%) of young adults in Scotland are struggling or falling behind in relation to keeping up with payments. This is better than working-age people but worse than older people in retirement, although they do score themselves lower than these age groups on their approach to budgeting. Only just over half are saving every month or most months and the same again could cope with an unexpected bill of £300.

More than two-thirds (69%) of young adults have financial goals, which is consistent with the UK average and better than working-age people and older people in retirement. Only 25% of young adults in Scotland are paying into a pension, which is worse than working-age people and consistent with the UK picture.

One in five (21%) young adults did not correctly read the balance from a bank statement and 55% did not understand the impact of inflation on savings. This is consistent with the UK average for this age group but worse than working-age people. Two-thirds (66%) of young adults would be happy to use the internet to carry out day to day banking transactions.

Young Adults and day to day money management

During the consultation, stakeholders were keen to highlight the gap in provision of interventions targeted at young adults. Young Scot has been looking into how young adults manage their credit and debt, with a particular focus on the attitudes of young adults to credit, and the kinds of lenders young adults use. Gathering anecdotal evidence and data on these issues will contribute to building a more holistic view of the credit market in Scotland for young adults. This work, which is supported by the Financial Conduct Authority, aims to better understand the money management issues affecting young adults across Scotland so that they can be better protected.

From Young Scot's experience, young adults typically do not worry about money management since it is not considered 'cool' to be concerned about money issues. This attitude, together with the pressure placed on young people by their peers to have the latest gadgets can mean young people use credit to make their purchases. This pressure could be most detrimental to those from poorer backgrounds, who may not be able to borrow from mainstream lenders, and turn to high-cost credit.

Young adults are amongst the biggest users and consumers of online content and services. The increasing availability of online financial services means that young people are able to access financial products more easily and could take out inappropriate – and potentially unaffordable – loans. Young people also experience difficulty in using basic financial services, and struggle to understand concepts such as interest rates on loans. This means they often may not realise what they are taking on.

In Young Scot's experience young adults also find budgeting a challenge. Amongst school pupils there is a general lack of understanding about actual living costs which will be incurred after leaving school, or during the course of a university degree. For school pupils considering going on to higher education, they are able to see the amount of money they will be entitled to as a student but without any experience of managing a budget, it is difficult to contextualise the figure into the real cost of living as a student.

The number of young adults using illegal money lenders is low when compared with other age demographics but 'loan sharks' will target certain groups of young adults, such as young single mothers, especially around Christmas-time. There is also a concern about the surge in the use of online gambling by young adults, which could be attributable to the ease with which bets can be placed by using smartphone apps, and the aggressive advertising used by gambling companies.

Research indicates that 67% of Scottish students take out a loan.[47] Research into young people's views of tuition fees and attitudes towards debt, showed that students had a poor understanding of higher education funding and student support, and few pupils had detailed knowledge of the loans and grants available to them.[48]

There appears to be a gap between their aspirations to be debt-free and the reality. Simplistic notions about debt were apparent and pupils displayed a lack of understanding of the true cost of going to university. Both debt avoiders and those who were more comfortable with the idea of debt had a poor understanding of student finance.

The impact of welfare reform

Welfare reform is likely to affect the financial resilience of young adults who are jobless or in low-paid and insecure jobs with uncertain income. Many of these young adults will become eligible for Universal Credit (UC) and need support in managing these payments and their priority bills through a transactional bank account.

Around 15% of unemployed 18-24 year-olds have been so for between six and 12 months, and roughly 24% for over 12 months. 18-21 year-olds in England, Scotland and Wales are likely to be subject to a 'youth obligation', where they are offered a period of intensive support from day one of their UC claim, leading to a requirement to apply for an apprenticeship or traineeship or to go on a work placement once they have been unemployed and claiming UC for a period of six months or more.

Welfare reform, notably the rollout of Universal Credit and the 'youth obligation', offers an opportunity to test effective interventions to improve the financial resilience of young adults who are unemployed or in low-paying jobs, in particular the resilience of those from more marginalised backgrounds who are likely to face additional life pressures beyond joblessness.

The UK Strategy will identify effective approaches to support young adults impacted by welfare reform and share this with the Scotland Forum.

Meeting the needs of excluded and vulnerable groups

Meeting the needs of these groups continues to be a concern, with stakeholders identifying NEETs, ethnic minorities, young offenders, care leavers, and disabled people as groups who require more tailored support. Money Advice Service research shows that 12% of young adults have a long-standing mental or physical impairment, illness or disability.

In 2014 there were around 21,000 16-19 year-olds not in employment, education or training.[49] Scottish Government has made a commitment that every 16-19 year-old in Scotland will be offered a learning or training place if they are not already in a job, modern apprenticeship or education.

The risk of homelessness amongst the NEET group is significant and continued downward pressure on benefits is likely to have a significant impact on this group.

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[47] Young people's views of tuition fees and their attitudes towards debt (S Minty, Centre for Research in Education Inclusion and Diversity, University of Edinburgh, June 2014)

[48] Young people's views of tuition fees and their attitudes towards debt (S Minty, Centre for Research in Education Inclusion and Diversity, University of Edinburgh, June 2014) http://www.docs.hss.ed.ac.uk/education/creid/Projects/34ii_h_ESRCF_WP7.pdf

[49] Office for National Statistics 2015

Interventions at home and in the community

It is recognised that peers and family members can play a key role in reinforcing financial education and providing role models. For young adults, initiatives such as Youth Cafés already provide an opportunity for individuals to socialise with their peers and learn new activities. The Money Advice Service will partner with Young Scot to carry out some work focused on young people aged 15 to 24. This will include digital content development and syndication and youth intelligence, information and data that Young Scot can gather to feed into the Money Advice Service Evidence Hub; as well as co-design and use of the Young Scot Rewards platform.[50]

Skills Development Scotland deliver a wide range of services to young people and operate a web hub called My World of Work.[51] Work is also being done across the social housing sector to provide early-intervention money management to young people applying for tenancies.

Further research is required in this area to understand the scope of current provision and its impact and effectiveness. We need to evaluate peer models, such as that established by Glasgow Council, which has trained modern apprentices to deliver money advice, to understand what works well and share best practice from this.

Priority areas for action

The following priorities have been identified for consideration by the Scotland Forum:

- research to improve the understanding of the needs of marginalised and minority groups;
- more interventions targeted at young adults transitioning from schools to start work or training or entering higher and further education and coming out of care; and
- better use of peer interventions.

Actions linked to these priorities can be found in Appendix 1.

The Young Adults Steering Group will take forward actions that apply across the UK, details of the initial action plan is available **here**. A representative from the Scotland Forum has agreed to sit on this Group.

[50] https://rewards.youngscot.org/
[51] http://www.myworldofwork.co.uk/

Working-Age People

- The Financial Capability Survey and feedback from stakeholders suggests the key priority for people of working age in Scotland is to focus on: improving basic money management and awareness of advice; supporting responsible and affordable credit providers; and enabling people to plan their futures better.
- A key aim for the UK Strategy will be to help people establish a buffer against financial shocks and, where possible develop a regular savings habit. For some people, the priority will need to be 'making ends meet' and focusing on reducing debt.
- There is a significant opportunity over the course of the Strategy to create a stronger savings culture across Scotland and the UK in which it is easier for people to save for the short and longer term.
- For many people in Scotland the transition to Universal Credit (UC) will be a significant life event. For some people it will create disruption and change but it does provide an opportunity to focus support with budgeting and accessing mainstream financial products on those who most need it.

Introduction

There are an estimated 3.5 million working-age people in Scotland.[52] The population in this age-group includes people focused on immediate financial pressures associated with managing costs and commitments day to day, such as paying off debt, building resilience to cope with income shocks with longer-term goals like buying a home, starting a family or planning ahead for retirement.

The areas identified as priorities for action in this Strategy are applicable to meeting the financial capability needs of working-age people in Scotland. The Financial Capability Strategy document for the United Kingdom provides more detail of activities targeting working-age people that may also be relevant in Scotland. This can be found **here**.

Interventions that currently exist across Scotland have been identified by various forums and stakeholders and can be found **here**.

Key issues and evidence

Managing money well day to day

Just over half (52%) of people in Scotland are managing well in terms of keeping up with their bills, which is consistent with the UK average. Slightly fewer (48%) are struggling or falling behind. Two-thirds (66%) could pay an unexpected bill of £300 without cutting back and 62% claim to know their current account balance to within £50 or less.[53]

There is some evidence showing an increase in the take up of short-term borrowing. Changes to regulation restricting the capacity of payday lenders make it even more important to ensure that people are informed and guided towards seeking out other sources of credit which are appropriate to their needs. The Strategy will also look to engage with employers and community lending schemes to increase access to affordable credit, more detail can be found in the 'Ease and Accessibility' section on page 58.

[52] http://www.nrscotland.gov.uk/statistics-and-data
[53] Financial Capability Survey (Money Advice Service, 2015)

Engaging people in the sources of basic money management skills and awareness of available money and debt advice

The extent to which NHS Health Boards in Scotland are working with advice services is growing and there are more advice services positioned in clinical settings, including GP surgeries and hospitals. This ensures that these services are accessible to patients and reduces the need for signposting, which often sees a large level of drop out. The Money Advice Service is committed to working with NHS Scotland, the Scottish Legal Aid Board (SLAB), the Improvement Service and the advice sector to agree joint outcomes and develop an outcomes focussed plan to achieve a wider reach

Automatic enrolment into workplace pensions may provide an opportunity to increase the provision of workplace education and engage with employees on financial capability. This could also provide an early indicator of people facing financial difficulty and needing support – e.g. opting out or ceasing contributions. Some unions already have workplace education schemes providing opportunities to engage through them and understand what works. The Improvement Service are currently working with local authorities in Scotland on organisational change which presents an opportunity to encourage some of them to develop workplace financial education modules.

Supporting families and children living in poverty

The Scottish Government's approach to tackling poverty, reducing income inequality and increasing financial inclusion is set out in its *Child Poverty Strategy for Scotland: Our Approach 2014-2017*.[54] This focuses on three key outcomes including:

- maximising household resources – with an aim to reduce income poverty and material deprivation by maximising financial entitlements and reducing pressure on household budgets among low income families;
- maximising the potential for parents to increase family incomes through high-quality, sustained employment; and
- promoting greater financial inclusion and capability.

The Scottish Government is jointly funding with the Money Advice Service a number of money advice projects administered by the Scottish Legal Aid Board, to distribute to organisations providing advice and support services for those affected by welfare reform.

One of the projects which has shown success is the Yorkhill Children's Hospital Financial Inclusion Pilot and the Strategy will use this to learn from and build on it across other children's hospitals. This could also be replicated for other patient groups as periods of illness requiring a hospital stay can have a detrimental effect on the finances of many patients.

Managing the impact of benefit changes

Significant changes to welfare will affect large numbers of working-age adults. Around 11.5 million working-age adults will move on to Universal Credit (UC) over the next five years. Claimants, many for the first time, will have to manage a transactional bank account and switch to monthly budgeting and payments. In 2013, Citizens Advice ran a pilot project, which found that 77% of claimants needed help with budgeting, 73% with monthly payments and 52% with banking.[55] Respondents to a DWP survey thought that a change to monthly payments would make it harder for them to budget; the main concern was running out of money before the end of the month.[56]

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[54] http://www.gov.scot/Resource/0044/00445863.pdf

[55] Universal Credit Managing Migration Pilot – final results (Citizens Advice, 2013) https://www.citizensadvice.org.uk/global/migrated_documents/corporate/citizens-advice-universal-credit-mmp-final-results---full-report.pdf

[56] T.Tu and S. Ginnis, Work and the Welfare System: a survey of benefits and tax credit recipients, DWP (2012) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/193471/rrep800.pdf

Support provided to claimants will include elements of money management and how to make and manage claims online. This support will be led by local authorities but it also includes Registered Social Landlords and Housing Associations who are looking at approaches to the early identification of people who are getting into difficulty as a result of UC and directing them to advice. This provides an important new local network through which financial capability interventions for working-age adults can be targeted and prioritised.

Pilots of UC in Scotland have provided some evidence of an increase in rent arrears. The Money Advice Service is working with DWP to develop online budgeting support for claimants. Citizens Advice Scotland are also funded by the Scottish Government to deliver welfare reform mitigation advice.

The Smith Commission[57] was tasked with providing recommendations on increased powers that could be devolved to Scotland following the Scottish independence referendum, and included a number in relation to social security.[58] Work is now being taken forward to plan for these powers coming to the Scottish Parliament.[59]

The Scottish Government is tracking the impact of the welfare changes on a range of households in Scotland over time and its latest report includes the impact around financial insecurity and well-being. Respondents who had moved into work reported increased wellbeing and a slightly improved financial situation, but continued to face difficulties. Respondents felt an underlying sense of precariousness and worried about any stability becoming undermined by a job loss, changing benefit criteria, or a change in household circumstances, causing them a great deal of stress and anxiety.[60]

The Strategy will work with a range of partners, particularly DWP, local authorities and employers to increase the reach and awareness of campaigns, highlight the benefit of workplace education, the impact of the welfare reform changes and deliver targeted advice to those affected.

Preparing for and managing life events

Over half of working-age people (56%) in Scotland say they have financial goals for the next five years. While this is an encouraging headline figure, financial plans tend to be around positive things, such as holidays (31%).[61] Optimism bias encourages us to plan ahead for positive life events that we look forward to, rather than planning to mitigate financial shocks or manage negative life events. There is evidence that people's planning horizon tends to be limited. Standard Life estimates that the average adult in the UK is unable to think about more than eight years into the future.[62]

Individuals have reported a lack of advice being provided by employers (after redundancy) or hospitals (after ill health) or solicitors (after separation or divorce).[63] Through undertaking research and analysis the Strategy will provide insights into what works in encouraging people to seek guidance and support on planning ahead during life events.

Protection against unplanned for life events

In Scotland 76% of working-age adults do not have income protection and 70% of working-age adults do not have critical illness cover. People with dependants are more likely to have actively taken out protection products.[64]

Research conducted by the Money Advice Service highlights that 1 in 3 UK adults have had a serious financial shock in the last five years, yet of these only 1 in 3 had insurance in place to guard against it.[65]

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[57] https://www.smith-commission.scot/
[58] In England most of these powers are described as welfare powers, in Scotland they will be known as social security powers
[59] http://response.questback.com/scottishgovernment/socialsecuritynewpowers/
[60] http://www.gov.scot/Resource/0047/00477917.pdf
[61] Financial Capability Survey (Money Advice Service, 2015)
[62] Eight Year Blind Spot (Standard Life, 2015)
[63] Milestones and Millstones (Money Advice Service, 2015)
[64] Financial Capability Survey (Money Advice Service, 2015)
[65] Press release (Money Advice Service, 9 September 2015)

The Money Advice Service has partnered with the Association of British Insurers (ABI) to raise consumer engagement and knowledge on the importance of safeguarding finances. The campaign will encourage people to think about who and what they want to protect, break down barriers associated with saving or taking out protection insurance, and drive conversation around the importance of ensuring family and finances are safeguarded against an unexpected event.

Taking out protection products, such as life assurance, is one way of making plans for unexpected life events. The level and nature of protection products needed by individuals and households can vary considerably depending on circumstances and might also include building up a savings buffer and paying off unsecured debt.

To help people plan ahead, financial capability interventions should support people to consider the key risks they face, understand and make choices about ways in which they could consider protection against them. The Strategy will explore whether additional guidance will help this age-group better consider particular financial risks and to what extent attitudinal and mindset barriers to considering risks surrounding negative life events can be overcome by delivering guidance through trusted messengers.

The importance of savings

A key aim for the UK Strategy, including for people in Scotland, is to tackle persistent under-saving. The Strategy will focus on:

- developing and maintaining a resilience buffer against financial shocks;
- promoting a regular savings habit; and
- working to reduce the attitudinal barriers to saving.

A buffer against financial shocks

A buffer against financial shocks can provide increased resilience, helping individuals meet unexpected costs – and thus avoid unnecessary or inappropriate use of credit – and providing a base from which to build greater financial resilience. StepChange Debt Charity estimate that savings of £1000 could help 500,000 people avoid falling into problem debt.[66] Qualitative research by the Money Advice Service found that individuals who experience a financial shock find their financial buffer does not last as long as they planned for.[67]

In a recent YouGov poll of 1054 Scottish adults, commissioned by StepChange Scotland,[68] 54% said that they were not confident that they are saving enough money to cope with a ‘rainy day’. Among 18-25 year-olds, 14% said they were unsure how best to save.

Credit unions in Scotland serve 363,000 people (including 50,000 junior savers). Their members have £428 million in savings and are borrowing £270 million. A large portion of Scotland’s public sector has a payroll deduction arrangement with one or more credit union, allowing employees to save regularly and repay loans direct from their payroll. ABCUL advise that private sector employers are increasingly following this lead, especially in the transport and communications sector. This is a priority for ABCUL Scotland’s ‘Credit Union Charter’. International examples in the USA, Canada and Australia show the valuable role that credit union membership has on employees’ financial health and therefore on their attendance and productivity. More should be done with employers to encourage them supporting a savings habit with their employees.

The Strategy in the UK will bring together partners from the financial services industry, charities and consumer groups to develop and pilot clear and simple guidance messages to promote savings as well as build a shared agenda on products and mechanisms that will encourage and enable people to develop and maintain a buffer against financial shocks.

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66 An Action Plan on Problem Debt (Step Change, 2015)
67 Financial Capability and Wellbeing (Money Advice Service, 2015)
68 Adapting auto-enrolment to fix savings crisis, Press Release (StepChange, 6 August 2015)

Promoting a regular savings habit

Saving is not just about creating a one-off buffer against financial shocks, but creating and maintaining a savings habit, for those that can afford to. Around two-thirds of the population in Scotland save every or most months.[69]

Research suggests that once developed, the strength of the savings habit increases over time and reduces levels of stress when faced with financial difficulties.[70] But there are still a number of key evidence gaps around how policy, products and different incentives can help raise household saving.[71] Over the lifetime of the Strategy it will be important to learn more about effective messages and interventions that support working-age adults to build and sustain savings habits.

There have been a number of policy interventions and product offers to promote and encourage savings in recent years, but the evidence base on what works in encouraging savings behaviour is patchy. A Savings Gateway was piloted twice between 2002 and 2007. This was a UK government-supported cash savings scheme designed to help people on low incomes initiate a habit of savings by matching every £1 saved with 50p.

The evaluation of the Savings Gateway pilot found 65% of subscribers made additional contributions over the amount required for maximum matched saving.[72] It is unclear whether incentives like this increase total savings or simply cause assets to be shifted from one place to another. One of the challenges to evaluating the effectiveness of savings initiatives is the difficulty in isolating the impact of specific products or policy interventions from other possible drivers or influencing factors.

The Financial Inclusion Commission has highlighted the variety of mechanisms and incentives that have been piloted to enable more people on lower incomes to save.[73] These include matched savings schemes like Savings Gateway, Lloyds Banking Group's 'Save the Change' initiative that rounds up purchases and transactions and moves the difference to a savings account,[74] and mobile applications like the Westpac Bank's 'Impulse Saver' app in New Zealand,[75] and True Potential LLC's impulseSave.[76] These applications make it easier to move pre-determined sums into separate savings or investment accounts, aiming to make it as easy to save impulsively as it is to spend. A number of credit unions have partnerships in place with employers to offer savings schemes through payroll deductions to harness the power of inertia to increase saving.

To develop a clearer understanding of what works, there is a need to co-ordinate new work to better understand the feasibility and effectiveness of different mechanisms that can help people on low incomes who can afford to build a regular savings habit.

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69 Financial Capability Survey (Money Advice Service, 2015)
70 Accounting for the Role of Habit in Regular Saving (Cäzilia Loibl, David S. Kraybill, Sara Wackler DeMay, Journal of Economic Psychology, 2011)
71 Raising Household Saving, (Crossley, Emmerson, Leicester, IFS, 2012.
72 Final Evaluation of the Saving Gateway 2 Pilot: Main Report (Harvey, P. et al., HM Treasury, 2007)
73 Improving the Financial Health of the Nation (Financial Inclusion Commission, 2015)
74 http://www.lloydsbank.com/savings/save-the-change.asp
75 http://www.westpac.co.nz/impulsesaver
76 http://www.tpllp.com/impulsesave/

Existing research on saving in lower-income households suggests that most saving is done over the short term for a specific goal or purchase. A key challenge for the Strategy is to work with the grain of existing goal-related savings habits and shift mindsets for planned saving further into the future and build confidence and attitudes towards saving.[77] The remedies proposed by the Financial Conduct Authority (FCA) in the Cash Savings Market Review, to improve the information provided to savers and simplify the switching process, could help existing savers to engage with saving products and choices.[78]

To make saving easier, there is a need to improve access to relevant savings products, and provide clear and effective guidance about savings products and incentives available. This area of work will be part of this Strategy's focus on 'ease and accessibility' (see page 58).

Engaging with the barriers to saving

There is a need to reach and engage people who do not believe saving is currently achievable for them. Research by the Building Societies Association (BSA) found that people's decisions to save or not were made in advance of, and separate from, choices about savings product.[79] This suggests a need to engage with attitudes of non-savers to build motivation and practical opportunities to convince themselves they could save within existing budgets and pressures.

In 2016 the Money Advice Service will work with partner organisations to pilot an approach to engaging non-savers in planning to manage their spending and creating headroom to save. This will be followed by support to set a savings goal to provide non-savers with a route into developing a savings habit. The evaluation of the impact of the pilot will be put on the Evidence Hub.

The Strategy will explore and share learning on different ways in which current non-savers can be effectively supported and given opportunities to build a savings habit.

Priority areas for action

The following priorities have been identified:

- improving basic money management and awareness of advice;
- supporting people to manage the changes to benefits;
- supporting responsible and affordable credit providers; and
- enabling people to plan their futures better.

Actions linked to these priorities can be found in Appendix 1.

The Working-age and Savings Steering Groups will take forward actions that apply across the UK – details of the initial action plans are available **here**. A representative from the Scotland Forum will be asked to sit on both these Steering Groups.

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[77] Saving in Lower Income Households, A Review of the Evidence (Kempson et al, PFRC, 2009)
[78] The Individual's Saving Decision (Building Societies Association, 2007)
[79] The Individual's Saving Decision (Building Societies Association, 2007)

Retirement Planning

- The entire retirement planning landscape in Scotland and across the UK has undergone significant change in the last decade, and this seems likely to continue.
- Given the evolving environment of pensions and retirement planning, developing an evidence base to understand people's financial capability for this area is a key priority for the Strategy.
- Key elements of the Strategy will also include improving access to and people's understanding of guidance and regulated financial advice and piloting interventions with selected employers to help their employees see the need to plan and increase their retirement savings.

Introduction

Retirement planning raises a very particular set of financial capability issues that affect young adults, working-age people and older people in retirement. The Strategy has developed a distinct action plan focused on retirement planning to reflect the unique challenges people face in planning for retirement, making decisions about retirement income, and managing retirement savings throughout life.

This part of the Strategy applies to the whole of the UK, including Scotland. Unless specified, all statistics used in this section are for the UK as a whole.

Evidence and key issues

This is an area that has undergone significant change, which looks set to continue in the short and medium term. Automatic enrolment into workplace pensions started in 2012. April 2015 saw the introduction of the biggest reform of the retirement system which gives people freedom over how to use their pension savings and the introduction of the Pension Wise guidance service.

The pension reforms are continuing with the introduction of the new state pension from April 2016 and the secondary annuities market in 2017. Changes in areas of guidance and financial advice, pensions tax relief, pension transfers and charges are also likely to affect financial capability. These changes represent a significant cultural shift in the way individuals save, plan for their retirement and manage their retirement savings. Retirement is a key focus for the Strategy as people's behaviours change in response to the new reality.

The Office of Fair Trading's (OFT) market study into defined-contribution workplace pensions stated that "the buyer side of the DC workplace pensions market is one of the weakest that the OFT has analysed in recent years".[80] People find it hard to engage with or understand their pensions due to the high level of product complexity.

Financial capability and retirement

People preparing for later life will need improved financial capability and support to make informed choices when building and then turning investments and savings into an income to fund retirement.

The evidence base for this area is varied and there is no single definitive source of data on financial capability in the area of retirement planning. The current Financial Capability Survey contains a relatively small set of questions around pensions and retirement. Developing the financial capability evidence base, including providing a baseline for financial capability around retirement planning is a significant priority for the Strategy. It requires a different set of capabilities than being able to manage money day to day. It is imperative to gain insight into people's ability to save and manage their long-term savings.

[80] Defined contribution workplace pension market study (Office of Fair Trading, September 2013 revised February 2014)

Under-saving

The Strategy will focus on people who are investing or saving inadequately for retirement.

The Financial Capability Survey shows that 53% of people in Scotland are currently paying into a pension or have previously done so. Automatic enrolment will increase the number of people saving into pensions but it is widely acknowledged that automatic enrolment levels at 8% total minimum contribution are not going to provide adequate savings for most people. DWP analyses give a sense of the scale of the working-age population who are currently saving/planning inadequately for retirement (under-savers).[81]

This analysis suggests almost 12 million people are under-saving, with most of those people (three-quarters) earning between £22,700 and £52,000 per annum.[82]

Pensions Commission income band	Number of undersavers	As proportion of Pensions Commission band	As proportion of all undersavers
Band 1 (under £12,300)	0.2m	7%	1%
Band 2 (£12,300 to £22,700)	1.9m	23%	16%
Band 3 (£22,700 to 32,500)	4.2m	52%	35%
Band 4 (£32,500 to £52,000)	4.6m	62%	38%
Band 5 (Over £52,000)	1.1m	67%	10%
Total	11.9m	43%	100%

Thanks to policies on automatic enrolment, the single-tier state pension and the pension triple lock, projections are that 93% of those in the lowest income band (under £12,300 per annum) will achieve adequate retirement income.

Mild under-savers, i.e. people already within 20% of achieving adequate retirement income, could improve their situation by making relatively achievable changes to their behaviour – choosing to work longer, saving more while in work, or saving more than the minimum.

Yet modest under-savers – those between 50%-80% of achieving target retirement income – could benefit from more support, whether that be to increase their pension saving or to better financial planning of their assets and liabilities during their working lives.

Research initiatives are needed to test and pilot different approaches to nudge people into saving more into their pensions, which would benefit the vast majority of people who are currently under-saving.

Retirement income decisions

Under-saving is only part of the story. Even the most financially capable people can struggle to understand the benefits and risks of different product choices and to make informed decisions about retirement planning, especially all of the new choices provided by the pension freedoms.

[81] Framework for the analysis of future pension incomes, 2013; Scenario analysis of future pension incomes (DWP,2014)

[82] The Pensions Commission was a public body set up to review the regime for UK pensions and long-term savings. The Commission is now disbanded. Its reports are often referred to as the Turner Reports.

Prior to the changes announced in the 2014 Budget, the FCA estimated that people lose out on around £115-£230 million a year by not making the best choices about how to turn retirement savings into income.[83] In a National Employment Savings Trust (NEST) survey,[84] only 40% of respondents under 40 felt they had an idea of what kind of income they might need in retirement; and this figure rose to only 57% of people over 40.[85]

It is too early to understand fully the behaviour and decisions that people are making about their pension pots. Early reports from the FCA indicate that 204,581 pension policies have been accessed within the three months following the pension reforms. 120,688 individuals have accessed some form of cash withdrawal with 71,455 individuals using some form of income drawdown and 12,418 individuals buying an annuity.[86]

The Financial Capability Survey shows that whilst there are a wide range of sources people intend to use to fund their retirement, the state pension and personal or workplace pensions are by far the most common.

Base: All who are not retired	Total (2849)	18-24s (744)	Working age (2786)
	%	%	%
State retirement pension	49	22	48
Personal or workplace pension	42	29	44
Your partner/spouse's personal/workplace pension	14	6	15
Savings or investments	32	34	32
Downsizing your home or equity release	10	4	10
Buy-to-let or other income from a property which is not your main home	6	4	6
Inheritance that you expect to receive	12	10	12
Inheritance that you have already received	3	4	3
Earnings from part-time/freelance work	12	10	12
Something else (please specify)	1	1	1
Don't know	18	37	19
Prefer not to say	4	4	4
NET: Any pension	**66**	**41**	**65**
NET: Any inheritance	**13**	**14**	**13**

There is a role for the Strategy to create a comprehensive literature review to co-ordinate the various reports and research that are emerging. This will enable the sector to identify key areas for further research or highlight synergies that may be exploited across different projects.

83 Freedom and Choice in Pensions (HM Treasury 2014)
84 NEST is a pension scheme set up by the government mainly to help employers with automatic enrolment.
85 Taking the temperature of automatic enrolment (NEST, January 2014, p. 25)
86 Association of British Insurers press release, July 2015

Changing policy landscape

The pensions policy landscape is continuing to evolve. The Work and Pensions Committee has recently undertaken an inquiry[87] to "examine whether people are adequately supported in making good, informed decisions about their retirement savings in light of the changes on access to pensions and pension drawdown introduced in April 2015".[88]

The government has also issued consultations on pensions tax relief [89] and pension transfers and exit charges.[90] The outcome of these consultations may result in new legislation that may have an impact on people's behaviour in the retirement market.

Improving access to pension information

Pension language and jargon make the market difficult for people to navigate. The Department for Work and Pensions[91] and NEST[92] have created language guides to support consumer understanding for the introduction of automatic enrolment. The Association of British Insurers (ABI) are also starting a cross sector group to build on the work of DWP and NEST in light of the new pension freedoms.

The FCA's retirement income market study is testing ways to improve how consumer information is presented to help people to make decisions about their retirement income and the type of information they receive in the run up to their retirement.[93] All of these initiatives need to be co-ordinated to reach people and improve their retirement journey.

The ease with which people can access their information is important to address when improving financial capability. There are currently a number of digital initiatives aimed at addressing this.

- 'Pensions Dashboard' – The FCA would like to see the development of a pensions dashboard for the UK which would allow individuals to see all of their lifetime pension savings including their State Pension.[94]
- Open Identity Exchange (OIX) 'Pension Finder' Tool – This project developed a pension finder prototype to examine the hypothesis that individuals will take action and make informed choices when they have information about their pension savings.[95]
- The Savings and Investment Policy Project (TSIP) 'Digital Passport' – This type of digital initiative would verify individuals' identity and allow savers to open new products and transfer money between organisations more easily,[96] through making information more accessible.

As a result of the significant developments in retirement planning there are many initiatives being conducted to develop our understanding and improve the landscape for individuals. The Strategy offers the ability to co-ordinate initiatives to maximise the benefit for individuals and leverage resources across organisations, and avoid duplication.

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[87] Pension freedom guidance and advice inquiry (Work and Pensions Committee, 2015)
[88] HMT Financial Advice Market Review, www.gov.uk/government/publications/financial-advice-market-review-terms-of-reference
[89] HMT Strengthening the incentive to save: a consultation on pensions tax relief, www.gov.uk/government/consultations/strengthening-the-incentive-to-save-a-consultation-on-pensions-tax-relief
[90] HMT Pension transfers and early exit charges, www.gov.uk/government/consultations/pension-transfers-and-early-exit-charges-consultation
[91] DWP, Automatic enrolment and pensions language guide, 2011 www.gov.uk/government/publications/automatic-enrolment-and-pensions-language-guide
[92] NEST, Phrasebook v 2, 2011 www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/NEST-phrasebook,PDF.pdf
[93] FCA, Retirement income market study: final report – confirmed findings and remedies, www.fca.org.uk/your-fca/documents/market-studies/ms14-03-3
[94] Ibid., Remedy 4 page 52
[95] Open Identity Exchange (OIX), The Pensions Finder tool: a discovery project white paper, June 2015 http://oixuk.org/wp-content/uploads/2015/06/pension_tool_BARCLAYS-VERSION_FOR-OIX_260615.pdf
[96] Tax Incentivised Savings Association (TISA), Press release, December 2014, www.tisa.uk.com/releases.html?release_id=578

Priority areas for action

The UK Retirement Planning Steering Group will further refine and agree the priorities below and will develop a more detailed action plan for delivery, which will be published on the fin cap website

The identified priority areas for action are:

- developing the evidence base to understand people's financial capability for retirement planning
- improving access to pension information
- leading the co-ordination of collaborative efforts to improve the consumer retirement journey
- improving access to and consumer understanding of guidance and regulated financial advice
- understanding the value of, and knowing how to access guidance and advice on saving and planning for later life is an important element of building people's financial capability.
- piloting programmes to nudge people to increase their pension contributions during their working lives

Older People in Retirement

- While some older people in retirement are relatively well placed financially, a significant minority have very limited financial means and many are not accessing the benefits they are entitled to.
- Older people are generally good at managing money day to day, but they can be hampered by difficulties accessing products and services. Barriers exist that prevent many older people from accessing available financial support and shopping around.
- Supporting older people preparing for their future covers a range of key issues, including, preparing for cognitive decline, and financial planning for life events i.e. bereavement. The Strategy aims to co-ordinate and tie in with general money advice, there is a need to do more to provide tools and support to plan better.
- Evidence shows that older people typically do not seek advice – especially where this advice is only provided online. Coupled with the increasing digitalisation of financial services this can lead to a lack of awareness or exclusion. The Strategy will make more use of existing relationships with trusted face-to-face partners to encourage them to seek advice and support them in improving their financial position.
- Evidence shows that older people are particularly vulnerable to financial scams. This strategy will enhance and expand the awareness of scams to do more to ensure that people in vulnerable circumstances are protected.

Introduction

Over 23% of the Scotland population are over 60 years old (in excess of 1.2m people). By 2031 the number of people aged 50 and over is projected to rise by 28% and the number aged 75 and over is projected to increase by 75%. There are around 663,000 50-64 year-olds in employment and 71,000 over-65s. Two out of every five Scots has at least one long-term health condition, and their prevalence increases with age.[97] The Scottish Government's *All our Futures – Planning for a Scotland with an Aging Population*[98] from 2008 sets out their strategic plan. Their vision includes:

- older people have ready access to information technology and the internet;
- fewer older people than ever before will live in poverty;
- vulnerable older people are protected, safe, and are free from fear; and
- authoritative, up-to-date sources of advice and information are accessible to older people, when and where they are required and in a format that is accessible and user-friendly.

The areas identified as priorities for action in this Strategy are applicable to meeting the financial capability needs of older people in retirement in Scotland. The Financial Capability Strategy for the UK provides more detail of activities targeting older people in retirement that may also be relevant in Scotland. This can be found **here**.

Existing interventions across Scotland have been identified by various forums and stakeholders and can be found **here**.

The key issues and evidence

Managing money well day to day

For older people in retirement, managing money well day to day is less about regular saving or building a savings buffer and more about ensuring existing savings are invested in the right place, and the ability to make good decisions about how they spend down retirement income and savings.

[97] http://www.scotlandscensus.gov.uk/population-households
[98] http://www.gov.scot/Resource/Doc/169342/0047172.pdf

82% of older people in Scotland are mostly keeping up without difficulty though around 18% are struggling or falling behind. 'Skills and knowledge' are fairly consistent with the rest of the UK with 21% not being able to correctly read the balance from a bank statement and 39% not understanding the impact of inflation on savings. Across the UK as a whole these issues worsen with age from around 75 upwards.[99]

Benefits entitlement

Between 1.2 and 1.4 million older people in GB eligible for Pension Credit are not taking up their entitlement.[100] 54% of the retired population surveyed had not checked within the last three years whether there were any benefits they could be claiming.[101]

Research shows that attitudinal as well as awareness barriers prevent older people claiming pension credit. Many older people are reluctant to talk about money outside of the family, assume the benefit is not available for them or are reluctant to accept 'hand-outs'.[102] Various approaches have been tried in the past to improve take-up rates, both by Government and voluntary-sector organisations but shifting rates remains very hard to achieve. Highly targeted interventions such as the Age UK 'Money Bus' have yielded good results but have been relatively small scale. The Strategy will need to look at how people can be encouraged to claim all the benefits to which they are entitled.[103]

Dealing with financial difficulties

15% of pensioners in Scotland are living in relative poverty and 9% are living in material deprivation.[104]

This group are affected by pressures on both income and expenditure. A lot of people in this age-group have never engaged with the benefits system, aside from state pensions, which makes it harder for them to know where they can go to get information. Coupled with this there is a motivational barrier in that, even if they know they are entitled, they are reluctant to claim the benefits they are entitled to. Moreover, it is difficult to encourage them to do so via a telephone helpline or online, the media through which such support is typically provided.

Lending in retirement

A small (7%) but increasing number of older people are entering retirement with a mortgage.[105] Many will be able to afford mortgage payments on a reduced retirement income, but a study of people over 50 found that owner-occupiers with mortgages were five times more likely to be in problem debt than those without.[106]

The vast majority of lenders operate upper age limits that mean people who are struggling to repay a loan in retirement, have fewer options open to them. Many lenders now offer people who can't repay 'grace periods' to seek advice, including debt advice and advice about the availability of suitable alternative products, and also directly refer people on to advice agencies. The Strategy can encourage more lenders to adopt this good practice. It can work with lenders to develop communications strategies that encourage more people to engage with them and access advice available.

A recent case[107] could potentially mean that lenders will have to amend their stance on lending to those with pension income. The Council of Mortgage Lenders and the Building Societies Association are both undertaking projects looking at lending to older people and will make their recommendations by the end of 2015. The Strategy will encourage the sector to adopt evidence-based recommendations that improve access to products for older people.

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99 Financial Capability Survey (Money Advice Service, 2015)
100 Income-Related Benefits: Estimates of Take-up - Financial Year 2013/14 (experimental), DWP, 2015
101 Financial Capability Survey (Money Advice Service, 2015)
102 Investigating the triggers into pension credit, (DWP)
103 Pension Credit eligible non-recipients barriers to claiming (DWP, 2012)
104 Poverty and Income Inequality Scotland 2012-13 (Scottish Government, June 2015)
105 TNS survey for Age UK, April/May 2012 in Later Life in the UK, Age UK, 2014
106 Problem debt among older people (Age UK, 2013)
107 Financial Ombudsman Service, Ref DRN9905176, 2015

For home owners struggling to make ends meet on a modest income, releasing housing equity could be a valuable source of additional money, particularly for those struggling to downsize or meet the costs of home adaptations. Given the complexity of equity release products and the difficulties people face understanding the long-term impacts of interest on their finances,[108] it is essential that anybody considering purchasing an equity release product accesses advice that explores all of the options available to them (including non-equity release solutions). The UK Strategy will explore how best to ensure that this support is available and accessed by those who need it.

Safeguarding from fraud

While financial abuse often goes unreported, research has found that 15% of people living with dementia – an estimated 112,500 people – have been victims of financial abuse such as cold calling, scam mail or mis-selling. 62% of carers reported that the person they care for had been approached by cold-callers or doorstep salespeople, and 70% reported that telephone callers routinely targeted the person they care for.[109]

Pension scams are now a bigger concern given that more options are available to them when it comes to investing or spending their money. Citizens Advice Scotland reports that the number of scams reported to their helpline are up by 14% in 2014. Scammers often share information between each other on vulnerable people on 'suckers lists' and between 10% and 20% of the population are thought to be at risk of being on these lists.

The Office of Fair Trading estimates that the average amount lost per person affected every year to postal scams is £850.[110] There are a range of existing interventions which are targeting this issue, including joint work between Royal Mail and Trading Standards Scotland. This work includes educating delivery workers on scam mail and its consequences; encouraging postal workers to identify and report victims; the provision of advice, support and potential intervention; and cancelling contracts with companies that send fraudulent mail. Members of local authority Trading Standards teams also provided training to Royal Mail staff.

In 2013 three Scottish local authorities – Angus, East Dunbartonshire and East Renfrewshire – carried out an award-winning joint project to assess the size of the nuisance phone call problem, and test different intervention strategies. This was the first time that such a project had been undertaken in the UK and was extremely successful. For the first time data was available to properly assess the size of the nuisance phone call problem and the impact of these calls on older and vulnerable consumers. Subsequently many Scottish local authorities purchased call-blockers to protect people locally, and following the success and impact of these projects it was decided that Trading Standards Scotland (TSS) would fund the provision of call-blockers to local authorities across Scotland. Twenty-seven Scottish local authorities signed up to the TSS project. Monitoring and analysis was carried out across all these authorities and the Scotland Forum will examine the forthcoming report on the results and consider how to support any relevant recommendations.

Preparing for and managing life events

Older people in retirement are more likely to have savings than working-age people and their savings tend to be higher. Only 27% of people of retirement age in Scotland have any form of plan for funding long-term care.[111]

[108] The future of the UK equity release market: consumer insights and stakeholder perspectives, 2015, Louise Overton and Lorna Fox O'Mahony.
[109] Short changed: Protecting people with dementia from financial abuse (Alzheimer's Society, 2011)
[110] Research on impact of mass marketed scams – A summary of research into the impact of scams on UK consumers (Office of Fair Trading, 2006)
[111] Financial Capability Survey (Money Advice Service, 2015)

Cognitive decline and the onset of ill health

Three-quarters (75%) of people with cognitive decline have experienced difficulties in managing their finances and more than a third (36%) of carers report problems managing the money of the person they supported.[112] Recent research by Joseph Rowntree indicated that 80% of people thought that banks and government should have a legal duty to provide people with advice and guidance on preparing for cognitive decline in later life. Age Scotland is also undertaking an early stage dementia project which will have resources around policy, information and training. The Strategy should work with the sector and the financial services sector to improve understanding and the impact of this issue.

Bereavement and funeral costs

More can be done to get people to talk about the financial aspects of death and to assist people to plan ahead for end of life. The early death of a partner is also associated with falling actual income against income requirements meaning that those left behind may need to readjust their financial plans to adjust to their reduced means.[113] In many older households one person controls the finances, if they die (or are otherwise unable to manage finances) the partner who had not been as involved may suddenly find themselves managing their finances for the first time at a time of reducing income and great stress.[114]

Only 34% of older people discuss their household finances openly with their partner.[115] This needs to change and more couples need to be encouraged to share information about household finances and understand and plan for their financial situation if one of them dies. Support needs to be available and accessed by older people who lack experience to build the skills and understanding needed to manage finances, ideally ahead of bereavement.

Funeral costs are soaring in the UK with the cost of a simple funeral increasing by 80% between 2004 and 2014. It is predicted that the cost of a simple funeral could rise to rise to £5,226 by 2020.[116] Given these rising costs, there is a growing need for people to plan ahead to ensure appropriate provision is made for their funeral wherever this is possible. Support needs to be made available to bereaved people struggling to pay funeral expenses at time of need to avoid them falling into financial difficulty.

Older people are significantly more likely to have a will than working-age people (27% of whom say they have a will) but still only 59% say they have one.[117] The charity Will Aid's research has found that 13% of people think there is no need for a will because their loved ones will automatically inherit, with this mistaken view being most prevalent amongst respondents over 55 years old. Initiatives such as Will Aid and the Dying Matters Coalition are focused on assisting people to plan for death and encouraging people to write wills. The Strategy can also help raise awareness of the need to make arrangements.

Priority areas for action

The following priorities have been identified:

- supporting older people in planning for their future better and maximising their income;
- getting help to people at risk of financial difficulty; and
- doing more to protect vulnerable older people from scams.

Actions linked to these priorities can be found in Appendix 1.

The Older People in Retirement Steering Group will take forward actions that apply across the UK – details of the initial action plans are available **here**. A representative from the Scotland Forum will be asked to sit on this Steering Group.

[112] Short changed: Protecting people with dementia from financial abuse (Alzheimer's Society, 2011)
[113] The financial resilience of the recently retired (Pensions Policy Institute, 2014)
[114] Financial Resilience in later life (Age UK, June 2014)
[115] Financial Capability Survey (Money Advice Service, 2015)
[116] The Funeral time bomb (International Longevity Centre, 2015)
[117] Financial Capability Survey (Money Advice Service, 2015)

People in Financial Difficulties

The UK Strategy considers financial difficulties from three perspectives:

- early intervention to prevent emerging issues from becoming more serious;
- crisis support to help resolve a debt problem that requires urgent attention; and
- building resilience so that, after crisis support, future debt problems become less likely.
- Co-ordinating work to support people in financial difficulties across the UK is the responsibility of the Debt Advice Steering Group (DASG), chaired by the Money Advice Service.
- At present people do not seek debt advice in a timely manner, with many waiting over a year before seeking help. At the same time organisations working in this area are finding it increasingly difficult to identify people in need of support. The Strategy will work with partners to improve the understanding of debt. In addition it will look to creditors to identify people at risk of falling into financial difficulty.
- There is a risk of exclusion in access to advice. The Strategy will work with stakeholder groups to understand the issues and provision in the area to ensure that advice and tools are accessible and meet the needs of individual groups.
- Too many people return to debt advice having fallen back into financial difficulties. This area of the strategy focuses on ensuring that people who have had debt advice are able to emerge in a much stronger position for the long term than when they entered the advice process.

Introduction

Financial difficulties can be experienced at all life stages and may be an ongoing feature of a person's life or only a passing phase. People in financial difficulties are more likely than average to be women, living on lower incomes and have experience of mental health issues.[118]

Financial difficulties have direct and indirect effects. Evidence suggests that adults that have experienced financial difficulties are more likely to become financially excluded and children growing up in over-indebted households are more likely to be bullied at school.[119] Over-indebted people also report negative impacts on their relationships and physical health as a result of their debt problems.[120]

13.2% of adults in Scotland are over-indebted.[121] There is an increase in non-consumer debt being seen across the sector including housing, power and local authority debt (council tax arrears) etc.

The Money Advice Service has a central role to play in the delivery of this aspect of the Strategy given its statutory responsibility to co-ordinate the debt advice sector – or more precisely to work with partners to improve the availability, quality and consistency of debt advice. Accessing debt advice is an important mechanism through which people can resolve financial difficulties and the key strategic aim the Money Advice Service and its partners on the Debt Advice Steering Group (DASG) have identified is to increase engagement with high-quality debt advice across all channels of delivery. The Debt Advice Steering Group aims to double the proportion of over-indebted people seeking advice by 2020 and then to double it again by 2025.

Work on financial difficulties is broader, however, than the delivery of debt advice when someone is in a crisis. Consequently the UK Strategy considers financial difficulties from three perspectives: early intervention; crisis support; and long-term resilience.

[118] Indebted Lives (Money Advice Service, 2013)
[119] The Debt Trap (StepChange Debt Charity and the Children's Society, May 2014)
[120] Statistical Yearbook (StepChange, 2015)
[121] Money Advice Service/CACI 2015

Key issues and evidence

Early intervention

Financial difficulties are not inevitable. Interventions can be put in place to mitigate the impact of a negative change in circumstances, reduce its likelihood or remove the possibility altogether. Early intervention can make a significant difference. Many financial services firms, for example, have been using analysis of the data they hold on customers to trigger interventions, but it is not always clear how effective these interventions are. This remains an under-researched area and one where the Strategy will seek to fill evidence gaps.

Early intervention is important because of the time it takes for most people to seek support – often due to a belief that their situation is normal for 'people like them' – and because the earlier someone takes action, the more options they will have, including the potential of avoiding financial difficulties completely.

A central hypothesis of the Strategy is that by improving financial capability it will make it less likely that someone will end up in financial difficulties. This could be in multiple ways including:

- building tangible assets such as a savings buffer or an appropriate set of insurance products like home contents insurance or life cover;
- building intangible assets such as a support network of peers to talk to about financial matters; and
- developing an understanding of when and where to seek out support from expert agencies when facing a major financial decision.

Identifying people in financial difficulties and referrals to debt advice

There is anecdotal evidence from support organisations that it is becoming increasingly difficult for their frontline staff to be able to cope and understand all the things they need to be able to identify and refer people for debt, money or health advice. With the proposed benefit changes, the under-25 age group will be particularly vulnerable as they won't have automatic entitlement to housing benefit. Due to the prevalence of debt in young people, the sector needs to ensure that these individuals will be able to access financial services and products in the future without prejudice, having demonstrated credit-worthiness.

The Money Advice Service is continuing to work with some housing associations, local authorities and utility companies to identify people who are starting to experience difficulty and how they get referred to debt advice. In Scotland the Money Advice Service will be working with Fife Council to target early intervention activities for people accessing the Scottish Welfare Fund. Shelter are planning to run a project with high-street lenders to identify people who are in arrears and who may be getting into difficulty with their housing earlier.

The Bankruptcy and Debt Advice (Scotland) Act 2014 came into force on 1 April 2015. The reforms aim to modernise the provision of debt management and debt relief in Scotland with the development of mechanisms that are fit for the 21st century. The Act ensures fair and just processes for debt advice, debt management and debt relief supported by the principle that those debtors who can pay should pay their debts. It is now mandatory that those seeking access to statutory debt solutions must first access money advice – ensuring that people are matched with the solution that best fits their individual needs and circumstances. A common financial tool has been adopted to help ensure a consistent, transparent and fair assessment of surplus income and ability to pay. The reforms also introduce financial education to the bankruptcy process – aimed at preventing future financial difficulties, particularly for those who are assessed as vulnerable to recurring debt problems.

The current model of funding projects for one to two years does not support advice providers in ensuring service continuity or consistency to these individuals, who are likely to continue to require money and/or debt advice for the longer term.

The Scotland Forum agreed that a holistic approach to addressing people in debt is required rather than looking at them as 'single' debts. There are multiple trigger-points for local authorities to be able to identify when someone is falling into difficulty i.e. housing, rent and council tax arrears. The Scotland Forum suggested taking forward the development of a Corporate Debt Recovery Policy which will enable this type of holistic approach to be delivered.

Fuel Poverty

The Scottish Government aims to ensure that by November 2016, so far as is reasonably practicable people are not living in fuel poverty in Scotland.[122] They are working in partnership with local authorities, voluntary bodies and energy companies to achieve the 2016 target. Local authorities, in taking fuel poverty into account in their local housing strategies, have an important contribution to make to achieve the target. Energy companies are contributing to the target through their Energy Company Obligation (ECO) and other schemes.

Improving take-up of debt advice

Only 17% of over-indebted people in the UK as a whole seek advice, and those who do mostly wait more than a year before coming forward for help.[123] People who manage their money better tend to be more satisfied with their life and are 15% less likely to suffer health problems related to anxiety or depression.[124] There is still a significant stigma around debt which leads many to avoid seeking advice. There has been a normalisation of debt in society which means that many people do not relate to the definitions of problem or crisis debt.

Supporting marginalised groups

It is recognised that vulnerable groups need further support, including deaf people and those with hearing loss, people for whom English is not their first language, and ethnic minorities. Homeless people tend not to get the same access to advice services, for example debt advice, which is often triggered by rent or mortgage arrears. A number of people will struggle to access housing due to financial difficulty and the prevalence of credit checks for private lets. The private rented market is increasing in size and rents are increasing which is compounding the problem for people on low incomes and in receipt of benefit. This in turn can increase the risk of homelessness or continued homelessness which then further marginalises those affected.

These groups need services which are tailored to their needs in order to ensure that they are not financially excluded. The Money Advice Service and Scottish Government have funded projects administered by the Scottish Legal Aid Board (SLAB) which have focused on removing the barriers to advice faced by these groups as well as women experiencing domestic abuse and other marginalised groups.

Crisis support – debt advice

Achieving a significant increase in levels of engagement will increase demand for advice services across all channels. Shared efforts to use evidence to diversify the funding base, improve funding co-ordination and increase funding levels will be essential to ensure demand is met. In Scotland, the Scottish Government, SLAB and the Improvement Service have been working in collaboration for some time to address some of these issues.

There is compelling evidence that support in crisis is effective. When people access debt advice – over the phone, face-to-face or online – they are, in the main, able

[122] http://www.gov.scot/Topics/Built-Environment/Housing/warmhomes/fuelpoverty/
[123] Indebted lives (Money Advice Service, 2013)
[124] Financial Capability and Wellbeing: evidence from the BHPS (Financial Services Authority, 2009)

to resolve their problems more quickly, more effectively and more sustainably than if they had taken action to address their difficulties alone.

Debt advice can deliver good value for money, although its impact in the widest possible sense, including impact on health, family relationships and long-term financial well-being is not yet fully understood.

Whilst the causal relationship between mental ill health and problem debt is not fully understood, it is most likely to be causal in both directions but for different groups of people. There is evidence from independent evaluation of projects funded by the Money Advice Service that significant improvements are noted by clients after they have received debt advice. This is supported by similar research carried out on behalf of other advice providers across the UK.

Building resilience

Financial difficulties need also to be considered in the longer term. Once a problem has been addressed, either by an individual themselves or with support from an external party, it is important to reduce the likelihood of that problem or a similar one recurring.

Too many people return to debt advice having fallen back into financial difficulties. The Strategy will focus on ensuring people who have had debt advice are able to emerge in a much stronger position for the long term than when they entered the advice process.

Money Advice Service research suggests that around a third of over-indebted people who have accessed advice have done so before.[125] For some of those people returning to advice will be an important strategy to avoid a deepening debt problem and will reflect a greater awareness of the benefits of accessing advice. For others it may indicate a recurrence of problem debt that could have been avoided if more action had been taken during the advice process or further to it in order to provide greater support, focused on the long term, to the client.

There is great promise in the integration of financial capability support into the bankruptcy process in Scotland and the Money Advice Service will look to work with the AIB on its assessment of the effectiveness of this.

The introduction of a ‘contingencies and savings’ category into the Common Financial Tool allows and encourages people in debt management or debt relief products to save a little whilst making contributions to creditors.

To build on existing work, innovative examples of helping people access debt advice need to be encouraged and evaluated.

Priority areas for action

The following priorities have been identified:

- working with creditors and partner organisations to improve the timeliness and take up of debt advice;
- promoting high-quality, impartial debt advice;
- ensuring that advice and tools are accessible and meet the needs of individual groups;
- improving financial resilience to support debt rehabilitation and prevention; and
- working with Young Scot to ensure the findings from FCA-supported research looking into young people and problem debts will continue to inform the direction of the Strategy.

Actions linked to these priorities can be found in Appendix 1.

The Money Advice Debt Advice Steering Group will take forward the work on people in financial difficulties across the UK. Scotland is represented on this group.

[125] Indebted Lives (Money Advice Service, 2013)

Ease and Accessibility

- At any stage of life, people's circumstances can make accessing financial services harder and the design and delivery of products can exacerbate the difficulties people experience in accessing the products and services they need.
- The overall aim in this area is to improve financial capability by enabling better access to appropriate and easy-to-use financial services and advice.
- The Strategy's work will build on the significant amount of activity already underway in the sector to improve the ease and accessibility of products and services, including current initiatives looking to improve information and choice in terms of simpler products and clearer, customer-focused communications.
- Issues the Strategy will seek to engage with include: filling the current gap in affordable credit; empowering people who are currently unbanked to start using a bank account; working with the sector to ensure that people can continue to have access to banking services; and working with digital inclusion initiatives to empower people new to the internet to use it for financial transactions.

Introduction

Being financially capable requires not only the appropriate skills, knowledge, attitudes and motivation, but also the opportunity to connect to financial services, support and advice. These need to be accessible and easy to use, with clearly understandable options, trade-offs and consequences.

At any stage of life, people's circumstances can make accessing financial services harder. For example:

- physical access to bank branches and cash machines is more difficult for people with low mobility;
- accessing appropriate credit quickly is more difficult for people with variable incomes or poor or incomplete credit records; and
- geographical remoteness and digital exclusion can significantly affect people's ability to access services.

The design and delivery of products can exacerbate difficulties people experience accessing the products and services they need. For example:

- use of technical and complex language in marketing and terms and conditions means that the consequences of decisions can be unclear;
- automated approaches to product eligibility can mean people are locked out of mainstream products; and
- the closure of bank branches will have a significant impact on people who prefer to access their bank through this channel, particularly those who are not able or willing to use digital or phone services.

There is a significant amount of activity going on in this area, which has seen an increased focus in recent times, including: work led by the Financial Inclusion Commission; the Credit Union Expansion Project; and the Archbishop of Canterbury's Task Group on Responsible Credit and Savings.

Since the publication of the Consultation Response and Next Steps document in March, a Financial Services Vulnerability Taskforce has been launched by the British Bankers Association (BBA) in order to look proactively at the ways in which institutions can improve the experience of customers who may be in vulnerable circumstances. The Taskforce will be looking out for good practice in financial services – as well as other sectors – that can be adopted more widely. The Strategy will work with and seek to build on this activity.

Access to Banking

Basic bank accounts

Almost 2 million people are currently unbanked. The introduction of fee-free basic accounts by the end of 2015 should enable a range of people who are currently unbanked, or do not have access to a transactional bank account, to become banked. Approximately a quarter of unbanked people have previously had bank accounts, suggesting that there will also be attitudinal barriers to overcome, based on previous negative experiences.[126]

HM Treasury recently consulted on regulations, the intention of which will be to place a duty on the Money Advice Service to raise awareness of Basic Bank Accounts. Through the Strategy, the Money Advice Service will work with partners to fulfil this duty to reach people who would most benefit from the new accounts.

Using current accounts

The Competition and Markets Authority (CMA) is currently investigating the retail current account market. While there is evidence of shopping around and switching, the market may not be working to support people's long-term ability to make choices that are right for them – for example, pricing is not always transparent in a 'free-in-credit' model.

Debit cards account for the majority of card transactions in the UK. Their use is expected to rise over the next ten years, with credit card payments expected to remain steady.[127] One significant driver to this growth will be younger people, who have grown up more used to high-frequency debit card use and are more likely to adopt innovations like 'contactless' and mobile payments.[128]

In addition to the unbanked, the Strategy also needs to consider people who do have access to a current account but who are not able or willing to use the transactional functions it provides, for example direct debits and 'chip-and-pin' payments as well as emerging payments. Helping people to use the functionality available to them should enable them to manage their finances more effectively.

Physical access

As more customers use technology for banking, the number of transactions completed in bank branches is declining. The British Bankers Association (BBA) have reported that one major bank saw a 40% decline in transactions in branch between 2009 and 2014.[129] Banks are continuing to reduce their high-street presence, closing unprofitable branches.

Branch closure can have a significant impact on older people who typically prefer to bank in branch and are less likely to use digital services. Government and the British Bankers Association (BBA) have developed the 'Access to Banking Protocol', an industry-wide agreement to work with customers and communities to minimise the impact of branch closures by making sure that customers still have banking services close at hand if a branch closes. The agreement also commits the industry to making sure there is the right support to help customers use internet or mobile banking.

Access to affordable credit

There are over 30 million credit card customers who together account for an estimated £56.9 billion of outstanding credit card balances. More than a third (36%) of credit card users revolve their credit balances, with working-age credit card holders (43%) the most likely to do so.[130]

Recent changes in regulation, for example the payday lender price cap, has led to an estimated reduction in the availability of high-cost short-term credit of £1.25 billion in 2015. The FCA

[126] Financial Inclusion Annual Monitoring Report (Karen Rowlingson and Stephen McKay, University of Birmingham 2014)
[127] UK Card Payments (UK Cards Association, 2014)
[128] UK Cards Payment Summary (UK Cards Association, 2015).
[129] World of Change (BBA, 2015)
[130] Financial Capability Survey (Money Advice Service, 2015)

estimates that around 70,000 people will no longer be able to access payday loans and that this will disproportionately affect those under 35 who make up 50% of payday loan customers.[131] The Research from Which? found that 36% of Scottish households are feeling financially squeezed with the constituency of Glasgow East the most distressed area.[132]

In Scotland a working group has been established with the Carnegie UK Trust to identify what might be done to make more affordable credit available to all citizens in Scotland. They are aiming to develop through the group the principles or characteristics that would underpin these affordable credit solutions.[133]

There are 113 credit unions in Scotland serving over 250,000 people with one in twenty being members.[134]

Eight Scottish credit unions are part of the DWP Expansion Project and are using the Automated Lending Decision tool which allows them to make instant loan decisions on 'easy yes' and 'easy no' applications, while those 'in the middle' are referred for manual consideration. Currently each application is processed manually, including from existing members with a good borrowing history with the credit union, and this greater efficiency allows the credit union to handle more loan applications and keep borrowing costs low for consumers.

There are at least five Scottish credit unions in the first wave of credit unions migrating to the new operating model later this year, which will include a banking platform with online and smartphone access which will meet the expectations of consumers and make credit unions more attractive to savers and borrowers from all walks of life.

Ensuring the accessibility of affordable credit continues to be a priority, as recent changes introduced by the FCA including the payday loan price cap are anticipated to restrict sources of credit further and potentially lead more people to turn to less trusted sources of finance such as illegal money lenders. There is anecdotal evidence of an increasing normalisation of illegal money lending, and a rise in usage of terms such as 'legal loan sharks'. Although the legislative changes to payday lending have yet to filter through to hard evidence in a shift towards greater use of illegal money lenders, there is also evidence of parallel lending where people who have rolled over credit several times are being passed on to illegal lenders. Young Scot's work with the FCA, gathering information and intelligence on the types of lenders younger working age people are using, will continue to inform the Strategy.

Digital Exclusion

78% of adults (39.3 million) in Great Britain used the internet every day or almost every day in 2015.[135] It is estimated that the number of people who have never been online is reducing by approximately 3% a year.[136] Nonetheless, more than two-fifths (44%) of people aged 65 and over (4.8 million people) have never been online. Reasons people give for not having internet access vary with 53% across all age-groups feeling that they don't need the internet because it is not useful or not interesting and 32% saying that they don't have the skills to use it.[137] There is still significant variation across the UK in access to reliable broadband and for some, cost remains a barrier.[138]

[131] Press release, FCA confirms price cap rules for payday lenders (FCA, November 2014)
[132] Press release Which? Puts spotlight on Scottish consumers (Which? June 2014)
[133] Meeting the need for affordable credit (Carnegnie Uk Trust, 2015) http://www.carnegieuktrust.org.uk/changing-minds/enterprise-and-society/affordable-credit)
[134] http://www.abculscotland.coop/credit-unions/creditunionsscotland
[135] Internet Access - Households and Individuals (Office of National Statistics, 2014)
[136] Government Digital Inclusion Strategy (Government Digital Service, 2014)
[137] Internet Access - Households and Individuals (Office of National Statistics, 2014)
[138] ibid

Digital Participation

Nearly a million people in Scotland, along with many tens of thousands of charities and small businesses, still lack the basic digital skills to get things done online.

For the past 18 months the Scottish Council for Voluntary Organisations,[139] with the support of the Scottish Government and the European Regional Development Fund, has been leading a national effort to promote digital participation and basic digital skills.

Scotland is already a digital nation. Eight in ten households have an internet connection, and four in ten have a tablet computer. Six in ten people use a smartphone.[140]

The Strategy can work with digital inclusion initiatives to promote the financial benefits of being online to working-age and older adults who are not currently interested in accessing banking services. Given the scale of interest in new digital products and financial technology to improve accessibility and engagement, organisations taking forward work to improve financial capability through digital products and financial technology should consider how to engage consumers who are regular internet users, but who do not currently use the internet for banking.

People who use the internet for financial transactions can make significant savings by gaining access to the best deals and to comparison sites that make it easier to shop around. BT has calculated direct financial savings to individuals of digital inclusion to new users to be £560.[141]

A majority of adults in the UK use the internet for banking and financial transactions and mobile banking is becoming a more accepted part of money management with almost four in ten (37%) of mobile internet users accessing their bank account via their mobile phone at least once a month. One in four (24%) mobile internet users reported making an electronic payment or money transfer with their mobile phone.[142]

Within that broad picture of increasing use of the internet for banking and financial transactions there are significant variations by age. Ofcom statistics show that only one-third (32%) of people in the UK aged 55 and over use the internet for banking, compared to two-thirds (66%) of 35-54 year olds.[143] The percentage of older people who would be happy to use the internet for day-to-day banking transactions declines slightly above the age of 60 and drops very sharply above the age of 70.[144] Of people over 55 who already use the internet, 53% don't use it for banking and 41% don't use it for purchasing goods and services.[145]

Developments in financial technology ('fintech')

Technology has already changed the way we access banking and financial services and is likely to continue to do so in the future. Many organisations are already exploring the potential of 'fintech' to make it easier for people to access, understand and engage with their finances. At the moment we know less about the extent to which different products and platforms help to boost engagement. A key area for the Strategy to consider and learn more about is the extent to which different 'fintech' solutions can be shown to improve financial capability of people in addition to providing new ways for the already financially capable to increase their engagement with their savings, budgeting and planning.

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[139] http://digital.scvo.org.uk/about/annual-report-2015/#why-digital-participation-matters
[140] Communications Market Report: Scotland (Ofcom August 2014)
[141] Valuing digital inclusion (BT, 2014)
[142] The Communications Market (Ofcom, 2015) http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr15/UK_5.pdf.
[143] Technology Tracker data tables, Wave 1 (Ofcom, 2015)
[144] Financial Capability Survey (Money Advice Service, 2015)
[145] Technology Tracker data tables, Wave 1 (Ofcom, 2015)

Improving information, choice and access

'Simple Products'

The Sergeant Review in 2013 concluded that UK customers would benefit from the option to purchase simple, standardised, easy-to-understand and comparable savings and protection insurance products.[146] The Association of British Insurers (ABI), British Bankers Association (BBA) and the Building Societies Association (BSA) have worked together, and consulted many stakeholders, to develop a 'Simple Products' framework. The framework has gained approval under the Trading Standards Institute (TSI) Consumer Codes Approval Scheme (CCAS). Three product standards to be launched under the scheme have also been approved: a simple life insurance product and two deposit savings accounts. Work is now underway to ensure that the name and logo to be used by companies wishing to offer 'simple products' can only be used under licence, following accreditation and subject to monitoring. Once this work has been completed, the framework, new name and logo will be launched and companies will be able to offer products meeting the scheme standards to the public.

Clearer customer-focused communication

Evidence from the FCA has highlighted that there is more for firms to do to empower people to make the best decisions for them, including, better understanding of what people need to know and when they need to know it. Through the *Smarter Communications* discussion paper, the FCA has shown its willingness to work with providers to address regulatory requirements that can be show to be preventing or inhibiting effective customer communications.[147]

Improving inclusivity of products and services

Despite the fact that most financial services firms have policies in place to provide assistance to people that need it to access their services, frontline staff may not be aware of or implement them or refer people on to specialist teams able to provide assistance. As a result, many people dealing with events or 'non-standard situations' continue to face barriers to accessing services.[148] For example, a lack of forms of identification or a transaction record for a credit history can prevent people from accessing mainstream financial products.

There has been a welcome increase in focus on this issue in recent years. A number of charities including Macmillan Cancer Support and Age UK proactively raise issues and work with industry to develop and promote solutions.

The FCA recently published an Occasional Paper on consumer vulnerability and an accompanying Practitioners Pack for firms.[149] Amongst other initiatives, the BBA has set up a Vulnerability Taskforce that will look to co-ordinate an industry response to the address the issues raised by the FCA.

As there are currently a number of initiatives already underway the Strategy is not proposing any new work in this area. The Strategy will continue to monitor progress of initiatives and encourage the sector to implement evidence based recommendations.

[146] Sergeant Review of Simple Financial Products: Final report, March 2013 https://www.gov.uk/government/publications/simple-financial-products
[147] Smarter Communications paper (Financial Conduct Authority,2015)
[148] Occasional Paper Number 8: Consumer Vulnerability (Financial Conduct Authority, 2015)
[149] Occasional Paper Number 8: Consumer Vulnerability (Financial Conduct Authority, 2015)

Extra costs

Around 15 million adults in Britain have long-term health conditions that can place extra financial demands on individuals, families and carers.[150] Macmillan's research has highlighted the significant financial impact of cancer – while the impact varies, 83% of people affected by cancer are, on average £570 a month worse off following their diagnosis.[151] As well as the additional higher costs of living, the impact of a life event or a change in circumstances on confidence, skills and motivation can be profound.

The Extra Costs Commission has highlighted the additional costs faced by disabled people as a result of their impairment(s). This can be, for example, around £200 a week for someone with a neurological condition, or around £300 per week for someone living with a physical impairment. Extra costs have an impact on disabled people's financial resilience. Disabled people tend to have lower levels of savings and assets than non-disabled people and are more likely to experience debt.[152]

Scope is taking forward the Extra Costs Commission's recommendations for disability organisations to develop information resources and peer-to-peer platforms that have a greater focus on disabled people's needs as consumers. The Money Advice Service is working with Scope to build financial capability support and insight into these resources.

Action Plans

Actions around ease and accessibility that apply across the UK will be taken forward primarily by the Working-Age People Steering Group, with those actions specifically relating to older people, taken forward by the Older People in Retirement Steering Group. Details of the initial action plans can be found **here**. A representative from the Scotland Forum may be asked to sit on both of these Steering Groups.

[150] Long-term conditions compendium of Information: 3rd edition (Department of Health, 2012).
[151] Cancer's Hidden Price Tag (Macmillan, 2013)
[152] Priced out: ending the financial penalty of disability by 2020 (Scope, 2014)

Appendix 1 – Action Plan

Following feedback from consultation, relevant priorities have been identified and agreed by the Scotland Forum. The recommended actions linked to these priorities have been listed below and the Scotland Forum will consider and prioritise these actions. Following that a delivery plan will be developed and partners identified to take forward the actions.[153]

Children and Young People

1 Greater evaluation and understanding of what interventions work to deliver financial education

a. Encourage an impact review to be carried out on interdisciplinary learning that would have a major focus on financial education. Education Scotland should be well placed to undertake this in partnership with Young Scot. Links would need to be made to digital technologies.

b. Work with financial services organisations and local authorities to understand good practice and what works and to share this across funders and providers and launch the evaluation toolkit pilot with a range of these organisations e.g. credit union initiatives in schools.

c. The Money Advice Service will conduct a quantitative survey into the financial capability of 4 to 17 year-olds, and parents' capability and confidence.

2 Support for schools to deliver financial education including a renewed emphasis on continuing professional development opportunities for teachers in the context of the National Improvement Framework

a. Encourage the continuation of professional learning for teachers and youth workers – both in terms of raising their own capability and providing supporting tools and materials for use in multiple learning settings.

b. Raise the importance of financial education through external accreditation for financial education, through co-ordination with Education Scotland and possibly the Scottish Qualifications Agency. Also examine the impact of the new life-skills mathematics courses.

c. Provide practical opportunities for children to engage in 'real world' money decisions, for example through influencing and designing appropriate financial capability interventions in their schools. This could also include building on the existing interventions of credit unions in schools to encourage saving and build relationships with a responsible lender.

[153] It is important to note that there will be steering groups for these life-stages and themes being taken forward at a UK level and there will be actions linked to these. Some of these may have relevance in Scotland. Where there is a policy or delivery difference across the UK, representatives from Scotland will be invited to sit on these steering groups. To see the UK actions for each theme go to www.fincap.org.uk

3 Greater co-ordination of interventions delivered by stakeholder organisations to understand and share best practice

a. Conduct an analysis of existing co-ordinated local authority activity for financial education in schools including for vulnerable young people using peer delivery and explore the connections with the developing the young workforce agenda e.g. Glasgow's Financial Education Curriculum programme and share best practice across the sector.

b. Work with Young Scot to understand, test and develop money management interventions focussed on those aged 11 and over.

4 Greater support for interventions targeted at families at home and delivered by peers

a. Parents and carers to receive better communication about and participation in their children's financial education in the context of the National Improvement framework i.e. numeracy, social studies and money weeks

b. Introduce financial capability training and support targeted at care leavers and looked-after young children to support their transition to independent living.

c. Work with Citizens Advice Scotland (CAS) on proposals for a peer-to-peer financial capability intervention targeted at families and children living in poverty.

Young Adults

1 Research to improve the understanding of the needs of marginalised and minority groups

a. Evaluate interventions in the housing sector with young people, including those who are homeless, to understand what works well and share across the sector.

b. Work with youth professionals to develop an understanding of what interventions work with marginalised young people and share best practice.

c. Work with young people to trial the development of their own initiatives e.g. with Young Scot and Glasgow Council young person specialist sub-group and share good practice.

2 More interventions targeted at young adults transitioning from school and about to start work, training or enter higher or further education and coming out of care

a. Target interventions to provide advice on money management for young adults moving into work or training, managing on benefits, dealing with low wages or fluctuating income.

b. Explore with stakeholders the development of pre-college or university money management initiatives (e.g. home-leavers package).

c. Work with student money advisers to ensure they are aware of all of the financial capability resources that are available including a post college/ university 'welcome to non-student life' package.

d. Work with colleges and universities, via the College Development Network and possibly the Student Awards Agency Scotland to introduce common approaches and build good practice for early interventions with students at the point that they apply for a grant or loan.

e. Care leavers and looked-after young people given financial capability training and support.

3 Better use of peer interventions

a. More co-ordination with youth partnership forums e.g. Youth Scotland and Young Scot to get money information and interventions embedded in these groups and establish wider networks to enable interventions to reach as many young adults as possible.

b. Encourage more consistent evaluation through the use of the Common Evaluation Toolkit and greater sharing of what works through the Evidence Hub.

c. Explore with Citizens Advice Scotland the potential for expanding their existing student volunteer programme to develop 'financial capability champions'.

Working-Age People

1 Improving basic money management and awareness of advice

a. Work with one or two local authorities to develop a best practice workplace financial education scheme. Work through the Improvement Service Organisation Change Initiative with local authorities to achieve this.

b. Work with Citizens Advice Scotland to build on existing links with trade unions and Scottish Business in the Community to explore the potential for developing workplace financial education schemes, including more evaluation to understand what works and share best practice.

c. Develop common standards for workplace financial education, sharing Money Advice Service material where appropriate.

d. Launch the Evaluation Toolkit pilot with Money Advice Scotland to understand the impact of their financial education modules and group training.

e. Explore with Citizens Advice Scotland the potential of piloting financial capability interventions targeted at offenders prior to their release.

2 Supporting people to manage through the changes to benefits

a. Explore ways to provide more information and guidance for employers on the impact of Universal Credit (UC) on employees.

b. Maximise the capability and opportunities of people claiming UC to budget and plan ahead.
This will include :

i) co-ordination with DWP and Job Centre Plus to embed budgeting support into the claimant journey; and

ii) shared learning and insights into need for support for financial capability interventions for claimants and designing support services to meet these needs and evaluating the extent to which needs are met.

c. Co-ordinate with the financial services industry to understand and monitor new take-up of transactional accounts by UC claimants.

d. Look at ways of establishing improved referral pathways with Registered Social Landlords and Housing Associations to ensure people who show signs of starting to struggle get advice earlier.

3 Supporting responsible and affordable credit providers

a. Publicity and communications improving brand perception of credit unions and other affordable credit providers.

b. Research into potential interventions to drive cultural shift away from illegal money lending.

4 Enabling people to plan their futures better

a. Effectively embedding financial capability in other services and interventions, by developing signposting, more consistent hand-offs and shared messaging with services already reaching and supporting people in vulnerable circumstances.

b. Promotion of the standard financial statement and existing financial capability and education modules.

c. Work with partner organisations to disseminate money management tools and information aimed at people facing or planning for life events including improving the ease and accessibility of pension information for consumers.

d. Explore the potential for greater use and take-up of workplace savings schemes. This will include working with the community credit sector to pool learning on effective delivery methods and co-ordinate approaches to engaging employers.

Older People in Retirement

1 Support people in planning for their future better and maximising their income

a. Work with the DWP and trusted agencies to support getting more older people to claim their benefit entitlement.

b. Evidence on the impact of digital exclusion should be given to funders forums and providers to encourage more initiatives to get people online.

c. Look at ways of encouraging more partnerships between mainstream providers and the third sector to provide more inclusive financial services.

2 Getting help to people at risk of financial difficulty

a. Greater use of the NHS as a trusted advisor: GPs and doctors are people who could refer people to money advice. The Money Advice Service is committed to working with NHS and advice sector partners to agree joint outcomes and develop an outcomes-focused plan to achieve better connections between health and advice.

b. Greater use of local authorities as service providers: look to partner with local authorities to build in advice on benefits claiming, benefits and financial health check when a community care assessment is carried out.

3 Do more to protect vulnerable people from scams

a. More training for health and social care teams to spot signs of financial scams.

b. More sharing of stories of scams including those online.

People in Financial Difficulties

1 Work with creditors and partner organisations to improve the timeliness and take-up of debt advice

a. Earlier interventions for missed payments being referred to face-to-face financial or budgeting advice to find solutions earlier and reduction in future missed payments e.g. Work with Registered Social Landlords (RSLs) to get earlier interventions – pre-action requirements lists for Housing Associations extended to get people referred.

b. Identify best practice for early warning identification and indicators to improve targeting of advice for those in need to share with other organisations including financial services, utility providers, local authorities. Money Advice Service will pilot with Fife Council early intervention for those accessing the Scottish Welfare Fund.

c. The Steering Group in conjunction with other partners will look to develop a Corporate Debt Recovery Policy and work with stakeholders to adopt a common approach to dealing with someone in debt.

d. Work to provide employers with a trusted point of contact and some guidance to enable them to refer employees to the best source of debt or money advice.

e. Share learnings from some of the pilot work being done in the Health Service in conjunction with Citizens Advice Scotland in terms of referring people e.g. programmes like ‘Healthier, Wealthier Children’ in Glasgow – trusted pathways work pilot looking at how you can catch people earlier (when accessing health services) before they get into crisis.

2 Improving quality, consistency and access to impartial advice

a. Promote good quality impartial debt advice.

b. Encourage the sector to work with the key parties to build referrals to trusted sources of advice – i.e. employers, social services, local authorities etc. all refer to the best sources.

c. Better co-ordination of how people are referred – i.e. standardisation for referrers.

d. Expanding scope of Money Advice Service funded projects that reach people who are particularly marginalised from debt advice.

e. Citizens Advice Scotland will explore referral pathways into bureau to identify existing referrers and to improve and co-ordinate the process.

f. Work with the Improvement Service and Scottish Legal Aid Board to broker funding relationships for effective interventions using the Funders Framework which has been developed to encourage co-ordination of advice provision.

3 Ensure that advice and tools are accessible and meet the needs of individual groups

a. Tailored services for deaf people who use British Sign Language, people for whom English is not their first language, and housebound and rural communities.

b. The Scottish Legal Aid Board will share learning and evidence from its grant-funded projects, providing evidence of interventions that are effective and can increase people's ability and willingness to tackle problem debt and financial capability, especially vulnerable and marginalised groups.

c. Research into the effectiveness of interventions to ensure equality not only of access but also outcomes.

d. Research into 'self-exclusion' and BME communities – accessibility, suitability, or attractiveness.

4 Improving financial resilience to support debt rehabilitation

a. Measure the effectiveness of statutory financial capability support as part of the insolvency process in Scotland.

b. Encourage greater consistency in funding for services over a longer period of time e.g. three-year funding e.g. by supporting the Funders Framework established by the Improvement Service and the Scottish Legal Aid Board.

Appendix 2 – The Financial Capability Board

Andy Briscoe, Chair, the Money Advice Service (Chair of the Board)

Jasper Berens, Head of UK Funds, J.P. Morgan

Sir Sherard Cowper-Coles, Senior Advisor, HSBC and Chair of the Financial Inclusion Commission

Benny Higgins, Chief Executive Officer, Tesco Bank

Professor Elaine Kempson CBE, Emeritus Professor, University of Bristol

Lily Lapenna, Founder and Co-Chief Executive Officer, MyBnk

Phil Loney, Group Chief Executive Officer, Royal London

Eleanor Marks, Director Communities Division, Welsh Government

Louise Macdonald OBE, Chief Executive Officer, Young Scot

Gwyneth Nurse, Director of Financial Services, Her Majesty's Treasury

Steve Pateman, Chief Executive Officer, Shawbrook Bank

Caroline Rookes CBE, Chief Executive Officer, the Money Advice Service

Roger Sanders OBE, Managing Director, Lighthouse Group

Sir Hector Sants, Chair, Archbishop of Canterbury's Taskgroup and StepChange Debt Charity

Otto Thoresen, Chair, National Employment Savings Trust

Sian Williams, Head of National Services, Toynbee Hall

Christopher Woolard, Director of Strategy and Competition, Financial Conduct Authority

Tom Wright CBE, Group Chief Executive Officer, Age UK

Appendix 3 – The Financial Capability Survey

The Financial Capability survey is a nationally representative survey of adults aged 18+ living in the UK. It is central to the evidence base that informs the development and delivery of the Strategy. Emerging findings will be published on the Financial Capability website, and the full survey data deposited in the UK Data Service Data Archive.

The survey is funded and managed by the Money Advice Service.

Over the ten year course of the Strategy the survey will provide topline measures of the extent to which financial capability and / or behaviour are improving. It is proposed to run the Financial Capability Survey periodically, recognising that year to year changes at national level may be limited.

The 2015 survey

The 2015 survey was conducted mainly (74%) online with some face-to-face interviews (26%) to represent lighter users and non-users of the internet.

Interviews were conducted with a sample of 3,461 adults. Additional interviews were conducted in each of the Devolved Nations (Scotland, Wales and Northern Ireland) in order to ensure a robust base for analysis. In total, 5,603 respondents took part in this research between April and July 2015.

The 2015 survey updates the evidence base provided by the Money Advice Service's 2013 and 2014 Financial Capability Trackers and the baseline survey conducted for the Financial Services Authority (now the Financial Conduct Authority) in 2005-6[154].

It was necessary to update the questionnaire to meet the evolving insight needs of the Financial Capability Strategy. This included redesigning the sampling structure of the survey to enable comparisons between subgroups within life stages, and adding additional booster interviews in Wales, Scotland, and Northern Ireland and with young adults aged 18-24.

The questionnaire for the survey was developed from previous waves of Financial Capability research, sector expert review by the Research and Evaluation Group, comparison with international surveys such as that run by OECD[155] and ASIC[156], specific qualitative research conducted for this survey,[157] cognitive testing of the questions and quantitative piloting of some questions.

154 Report at http://www.fsa.gov.uk/pubs/consumer-research/crpr47.pdf and full dataset at http://discover.ukdataservice.ac.uk/catalogue/?sn=5697

155 The Organisation for Economic Co-operation and Development - survey details at http://www.oecd.org/daf/fin/financial-education/measuringfinancialliteracy.htm

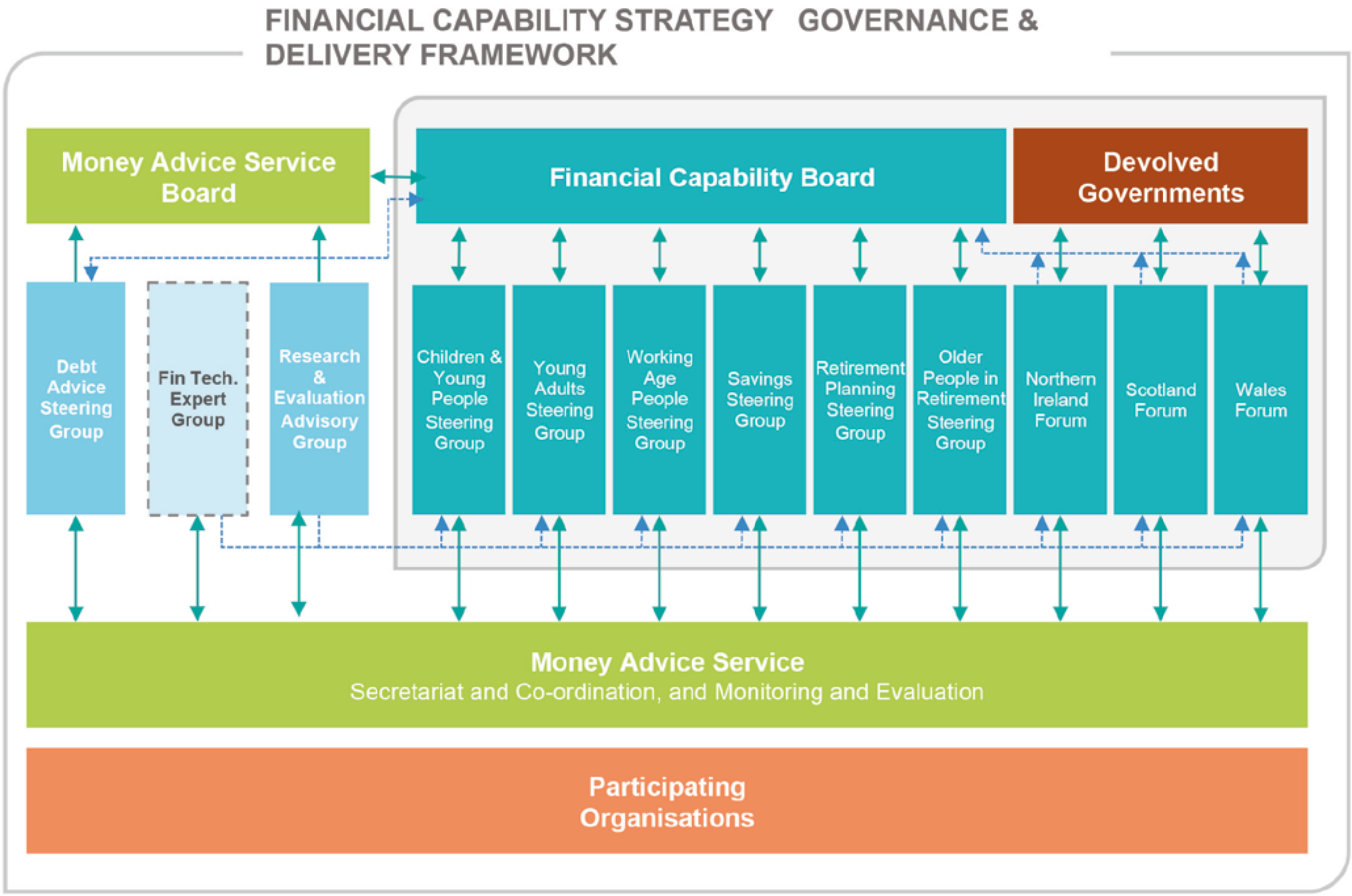
156 Australian Securities & Investments Commission- Financial Attitudes and Behaviour Tracker survey detail at http://asic.gov.au/regulatory-resources/find-a-document/reports/rep-419-australian-financial-attitudes-and-behaviour-tracker/

157 Financial Capability and Wellbeing Qualitative Research conducted by TNS BMRB for Money Advice Service, 2015 http://comfy.moneyadviceservice.org.uk//system/comfy/cms/files/files/000/000/213/original/financial-capability-and-wellbeing.pdf

Appendix 4 – The Financial Capability Strategy Governance and Delivery Framework

This diagram shows the different elements of the Strategy Governance and Delivery Framework and their relationship to each other.

For more details on this framework, and the groups within it visit **www.fincap.org.uk**



* The establishment of a fin tech expert group is still under consideration.

Financial Capability Strategy for the UK

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