Keynote speech from the Scottish Financial Education Conference

Given by Kirsty Bowman-Vaughan from the Money Advice Service.

All too often, we see young people, just starting out in adult life, making financial choices that hurt them in the short term, and that can also have a serious long-term impact on their lives.

I'm going to give you some background to why this is happening. I will share some of our research with you on how financial capability is developed at different ages, and what current levels of capability are. I am from The Money Advice Service, a government organisation set up to help people have the skills they need so they make good decisions about money. We also support people with financial difficulties through funding free debt advice and work to get people that need it, to go to it.

So it's our job to help people manage their money well, and I recognise that it's not yours. I am stunned to see so many people here, in England, a teacher's conference on financial capability would get half this number if we're lucky. I want to thank you for caring, thank you for the work you are doing, thank you for the difference you are making.

We commissioned research working with research experts and child psychologists to get a much deeper understanding of how financial capability is developed in childhood and the impact of childhood ability on financial capability later in life. It will probably come as no surprise to you to hear that adult financial capability is developed through what is seen, learned and experienced during childhood and adolescence.

Financial capability comprises many components ranging from numeracy and problem solving, to self-confidence and self-control.

Learning money management doesn't follow a unique developmental path; it doesn't exist in a vacuum and the components of financial capability I just talked about show how the work that we do has much wider implications for individuals and society as a whole.

There is evidence to show that people who don't base their self-worth on money or possessions are likely to be happier; people who are practiced in resisting unhelpful impulses are likely to be healthier; people who have the resilience to deal with knock backs and strategies to overcome are likely to be more employable.

So how is financial capability developed?

Just like many other areas, it starts young. Looking at how the brain develops, we see the neural pathways which govern much of how we construct our meaning about the world and our responses to it form from a very early age, potentially from three years old in relation to money.

The neural pathways reach their peak by 7 and then go through a process of pruning, discarding those connections that aren't used as much, which is completed by the age of 16. In addition we see that many executive functions, the most important of these being inhibitory self control – the ability to override your habitual responses – reach adult levels by the age of 12. In contrast, the pre-frontal cortex which manages areas such as planning and understanding risk is not fully formed until the age of 24.

And how does this relate to financial capability?

It shows us that our ideas about, and often behaviour to money, can be in place early, before most of us have received any financial education. The teachable moments are missed, leading to the much harder task of changing behaviour in future years. It shows us that we're not equipped with the cognitive skills to systematically manage our money well until our mid 20s, six years after the world of credit opens up.

We are social learners, the knowledge that we construct as our 'truths' is in response to what we see and what we hear, with parents and carers playing that key role in childhood. This is how money and

its management can be learned to be feared or avoided from an early age. Teachers (and schools) can play an important role in that socialisation of money and ever important role in adolescence, Trust is important – do they believe you, can they relate to you or are you an expert?

So starting young matters and we need to think about attitudes to money, experiences of money, as well as money facts.

Where else do we know? Well, this year we spoke to over 600 4-17 year olds and their parents in Scotland. We wanted to find out how prepared they were for the choices they will face in adult life, and what education they had received at home, or in school along the way. These are the initial findings and we will share the full Scotland findings in the coming months

Let's start by looking at what they have learned in school.

We found that only half of all children and young people said they have received any financial education in school. And what makes this figure even more concerning is that whether you are 7, 14, or just a few months away from access to credit, it's 50%.

What about at home? Well we've known for some time the key role that parents play and our survey supports this. Most talk to their parents about money and most parents believe they are good money role models. That's great news. Except that's not the full story.

Dig a little bit deeper and we found that about 40% of parents didn't feel confident talking to their kids about money, and many just didn't talk to their kids about it ***at all***. Add to this the fact that 2/3rds of parents were struggling to keep up with their own credit commitments. And now the story is looking a ***lot less rosy.***

So, the majority aren't getting taught in school, and home can be hit or miss. What about when they're a bit older, when they are about to transition to adult financial independence. Should we be worried?

Let's look at 16-17 year olds to find out.

- We found that 26% have had **no experience** of putting money into their bank account
- 55% **were unable** to correctly read a payslip
- And 28% **didn't know what would happen** if they were behind on paying their council tax

As one of the biggest funders of free debt advice, we see the real life impact of this every day.

Just imagine. You turn 18, get your first proper job. You don't understand how much you are actually getting paid. Don't save enough. Don't know why you should be saving in the first place really. Didn't see it at home, you didn't learn about it in school.

Money slips through your fingers. In no time at all, you can't afford to pay all your bills and pay the one shouting the loudest. The one with the highest APR, rather than the one that will take you to court. And end up in serious trouble that haunts you for ***years to come***.

And that's not a story just designed to pull the heart strings. We've heard this.

We spoke to people in their late 20s to explore what their money regrets were. What were the things they did with their money when they were younger that had a long term consequence. The regrets ranged from the big, taking out loans they couldn't pay back, buying a car or going on a holiday they couldn't afford, to the small every day money decisions we all take every day.

Three quarters of those in their late 20s who took part in our research said they've made money mistakes that have haunted them,

And 18% of 18-24 year olds in Scotland are over-indebted. That mean they have missed three out of the last six months of bill repayments, or feel their debt is a heavy burden.

And what were the consequences? Some told us how they now struggled to get a mobile phone on contract, credit cards were unobtainable and some had failed credit checks for housing. Others spoke about how they had to sell their car, take on additional part-time work and some even had to move back home just to get by. We were shocked to hear that more than one in four were left unable to afford everyday essentials, such as food and transport costs because of the money mistakes they had made.

People talked vividly about the impact it had on how they felt about themselves and their personal relationships with others. Half the people we spoke to said they have suffered depression due to their money problems. A quarter of those surveyed said their financial mistakes damaged their relationship with friends and family.

Now where do you fit in, in the face of all this?

Remember that stat I said earlier, where only 50% of young people said they had received financial education in schools? Well, of those people, over 9 in 10 said they found it useful. More than 90%.

The work that you are doing is helping. And it is help that is desperately needed. Because financial education has to start at a young age, take place throughout schooling, and give the opportunity to set young people on a path where money doesn’t just hold them back. No. They flourish.