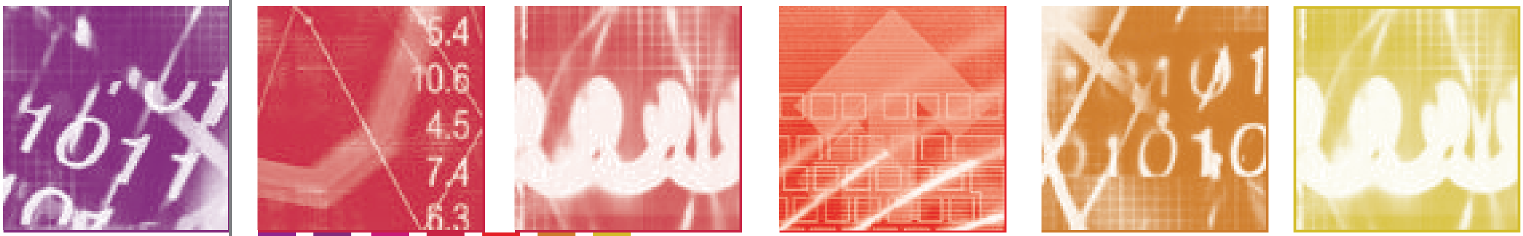

ACCESS TO FINANCE INTERNATIONAL CONFERENCE

Brussels, 28-29 October 2004

CALL FOR PAPERS

Young people: Avoiding banking exclusion

Adele Atkinson
Personal Finance Research Centre, University of Bristol
United Kingdom

In association with

WORLD BANK

WORLD SAVINGS BANKS INSTITUTE

Young people: Avoiding banking exclusion.

Abstract

Whilst most young people in Britain hold a current account, a sizeable minority do not. By summarising the findings of a wide range of research, this paper considers factors affecting the risk of banking exclusion for those young people who do not begin to interact with financial services at an early age. It also looks at the extent to which young people are putting themselves at risk of future exclusion through over borrowing. Some current initiatives to reduce financial exclusion amongst this group of people are discussed. The focus of the research is Britain, but the implications have resonance across many nations.

Keywords: Banking, young adults, financial exclusion.

Adele Atkinson
Personal Finance Research Centre
University of Bristol
University Walk
Bristol
BS8 1SS
Tel: 0117 954 6860
Email adele.atkinson@bris.ac.uk

Acknowledgement

A large part of the desk research undertaken for this report was funded by the Banking Code Standards Board as part of a study to understand the implications of the banking code for young people. The author wishes to thank the BCSB for agreeing to the use of those findings to inform this work. The opinions expressed are the author's own.

Introduction

There is an increasing awareness of the negative impact of banking exclusion. As debate focuses on the wider aspects of social responsibility and an inclusive society, so banks face increasing scrutiny and pressure to address the problem of the unbanked and under banked. When the majority of people in a country have a bank account, it becomes costly for those without to conduct transactions in cash (Kempson et al, 2000). Furthermore, in highly banked populations the lack of access to alternative payment methods can stigmatise sections of the community.

International research has highlighted several sectors of society that are less likely to use banking services than the whole population. In most countries these include the elderly, the young and those living in rural communities (Connolly and Hajaj, 2001; Kempson and Whyley 2001). In Britain for example, bank account holding is lowest among people aged under 20 and over 80 and those on low incomes (Kempson and Whyley 2001).

There are many possible explanations for financial exclusion. Stumbling blocks such as identity requirements and the terms and conditions of bank accounts are often blamed for low take up of accounts among some groups, as are physical access problems brought about by bank branch closures. Psychological, educational and cultural barriers are also known to be significant obstacles to banking for some people. Individual obstacles can combine to create substantial effects – such as the combination of low levels of rural provision and cultural barriers, or poor educational attainment and complicated terms and conditions.

Additional factors influencing the level of interaction with banks include the ways in which government social security benefits and personal salaries are paid. The effect can be accentuated by the kind of banking provision available, such as the provision of low cost accounts, free cheque cashing and accessible information. Where payments are by cheque or giro, and cashing them through banks is time consuming or costly, people are more likely to use the services of fringe lenders (see for example Hogarth and O'Donnell, 1999).

This paper will add to a growing literature, including work published by the Financial Services Authority in the United Kingdom, (Loumidis and Middleton S (2000); Samson et al (2004)) on the banking habits of young people in Britain. The focus is on the causes of exclusion amongst young people today and the behaviours most likely to cause future exclusion. It considers ways of avoiding exclusion and it is expected that the lessons learned can be applied to other nations.

The report concentrates on young people aged between 16 and 24. In order to identify relevant issues it is important to know something about the population in question and the first section of the paper therefore draws on descriptive statistics relating to young people taken from a variety of large and small scale data sets. These statistics include key characteristics ranging from educational skills to types of housing and the proportions in work or study, since all these will influence ability and desire to interact with financial services.

Section 2 goes on to describe the current level of banking amongst young people, and the most frequently used products. In Section 3 the disadvantages of being unbanked are considered in more detail. Accessibility issues are considered in Section 4, and Section 5 looks at the particular dangers of high levels of borrowing amongst young people. Section 5 also includes details of early acceptance of debt which can lead to a poor credit history and subsequent withdrawal from banking services. Section 6 focuses on some of the methods currently being used to address banking problems faced by young people and is followed by a conclusion (Section 7).

Section 1

Economic and educational characteristics of young people

Housing

Most of the six million young adults aged between 16 and 24 years old in Britain are single and live with their parents. Recent statistics indicated that just 15 per cent of this age group were living with a partner - four per cent were married and a further 11 per cent were cohabiting - (Survey of English Housing 2003) and these proportions have changed little since 2000 (GHS 2001). Young women were twice as likely to have a partner as their male peers, indicating that females are taking slightly older partners.

Around three-quarters of young adults live with their parents and, not surprisingly, the proportion is higher for young people in their late teens than it is among those in their early twenties. It is much more common for adult sons to remain in the family home, than adult daughters. Half of young men aged between 20 and 24 years live with a parent compared with only a third of women of the same age (Social Trends 34).

Many young people start paying something towards the cost of their accommodation before moving away from home. Surveys show that whilst very few students who live at home pay board to their parents, in total around half of all young people living with a parent pay something towards their up keep, particularly those in low income families (British Household Panel Survey (BHPS)).

Young people living independently are most likely to rent their home. Altogether nearly eight in ten young householders aged between 16 and 24 rented their home in 2001 – 44 per cent from a private landlord, 34 per cent from a local authority or housing association. Just over one in five (22 per cent) were buying their homes (FRS 2001).

Employment and Education

The Labour Force Survey shows that, in 2003, around 46 per cent of young adults aged 16-24 were in employment; 38 per cent were in full-time education and just six per cent were unemployed and looking for work (LFS, 2003). The remaining 10 per cent were economically inactive for reasons other than full-time education, and whilst most of these were young women caring for children, this figure also includes over 180,000 disaffected young people aged between 16 and 19 in neither education, employment nor training (NEET) (Bivand, 2004).

Employment and education are not mutually exclusive. Despite the pressures of their studies, around four in ten full-time students aged 16-24 were also working - 35 per cent of males and 43 per cent of females - and a further six per cent were seeking work (LFS 2003).

Recent statistics suggest that the decision to continue in education still depends very much on social class, despite attempts to widen participation. In the academic year 2001/2002, 50 per cent of young people from wealthier families (non-manual social class) participated in higher education, compared with just 19 per cent of those from a working class background (Social Trends 34).

Basic Skills

The *Skills for life survey* found that young people, under the age of 25, had levels of literacy that were at about the average - with 43 per cent of 16 to19 year-olds and a similar proportion of those aged 20 to 24 achieving level 2 or above (Department for Education and Skills, 2003(a)). In contrast, young people performed less well on the numeracy tests than older people (Department for Education and Skills, 2003(a)). Only half of them (50 per cent of the16-19 age group and 51 per cent of 20-24s) achieved at least level 1, where people can understand straightforward mathematical information used for different purposes and can independently select relevant information from given graphical, numerical and written material. This was a significantly lower proportion than in older age groups – for example 57 percent of 23-34 year olds reached this level of competence. There is a clear gender difference in performance in these skills: fewer young women than men aged between 16 and 24 performed well on the numeracy tests (48 per cent compared with 53 per cent at level 1 or above), whilst more women than men performed well on the literacy ones (46 per cent reached level 2 compared with 40 per cent of young men).

There is evidence that young people also have below-average levels of financial literacy. A survey for the Financial Services Consumer Panel assessed only a third of younger adults (aged 21-24) as financially literate, compared with nearly half of adults overall. Young adults expressed low levels of confidence about making the right decisions when purchasing banking products. Promotional research conducted by the Royal Bank of Scotland highlighted that over 40 per cent of 16 year olds were unaware of how a debit card worked, and 46 per cent agreed that they did not really understand the difference between debit and credit cards (RBS 2004).

From an early age, children have quite different levels of exposure to financial matters (Loumidis and Middleton 2000). Poor children know far less about banks and banking services than their better-off peers. On the other hand, if their family is poor, children tend to have a much greater awareness of the budgeting techniques used by their parents, and they are acutely aware that their parents have to pay regular bills. Indeed, researchers have concluded that young people's experiences outside school lead to very firmly held beliefs and attitudes on financial matters that can impede personal finance education in schools (Thomas 2004).

Section 2

Use of financial services

Type of account

The majority of young adults begin to engage with financial institutions when they move into work (Hutton and Seavers, 2001). They are particularly likely to try and open a current account in order to make use of debit cards, overdrafts and direct debits to manage their money. This is an important time in forging banking relationships, and one that has not gone unnoticed by the banking sector. Marketing of products to young people is highly competitive, making use of incentives such as free CDs and favourable interest rates to woo new customers.

Yet whilst most working age youngsters are banked, a number of young people are not engaging with financial services: 12 per cent of 16-24 year olds in 2001 had no bank account (FRS 2001). It is very unusual for young adults to have a savings account rather than a deposit account, and fairly uncommon for them to hold both. In 2001, for example, current accounts were held by 83 per cent of young people aged 16-24, but only a third (32 per cent) had a deposit account (FRS 2001).

Whilst young people are more likely to have a current account than a deposit account they are far more likely to have no account at all than adults aged between 25 and 64, and young adults' current account-holding is more than ten percentage points lower than adults aged between 25 and 64 (FRS 2001). This early reluctance to participate indicates that the banking sector may not be meeting the needs of some young people.

The preference for current accounts over deposit accounts may have several roots and may be an important factor in getting young people fully banked, providing they consider savings products in the future. The decision to take a current account could indicate that young people have embraced a non-cash culture and require alternative means of payment. The type of life event most likely to be experienced by these young adults that can trigger an interest in financial matters, such as transition from school to work, is quite probably better served by this kind of account.

There is evidence to suggest that transaction account banking could reflect the desire or need to borrow money; of young adults aged 18-24 year olds 50 per cent had an agreed overdraft, and a third held a credit card (DTI, 2002). The borrowing of money in early adulthood is consistent with the widely accepted life-cycle hypothesis which assumes that people smooth their expected earnings over their life time with the use of saving and borrowing (Modigliani and Ando, 1963).

Low inflation and relatively low interest rates on deposit accounts plus the possibility of interest bearing current accounts may also sway young people towards the latter. Qualitative research looking at the Savings Gateway found that young people require high returns to consider formal savings (Kempson et al, 2003).

Section 3

The dangers of financial exclusion

Access to financial services is taken for granted by the vast majority of people in developed nations. It is essential that such access is universally available in order to prevent the underprivileged paying more for services by being forced to operate entirely in cash, to increase good money management, and to reduce the risk of people turning to more expensive forms of credit, such as pawn brokers and payday lenders.

Cash Economy

For many young people the first experience of work will be informal, such as occasional babysitting or taking on a paper round. They will almost certainly be paid in cash, and consequently most will make purchases in cash. At this stage there is very little hardship from this type of transaction and small incentive to use a bank account for payment.

The majority of adolescents will begin to use current accounts to manage their money once they have a regular income. They may also start to make card payments, perhaps to shop online. They will be able to set up regular payments through their bank and manage their money electronically as they become increasingly responsible for their living costs or household budget.

Some young people continue paying in cash beyond childhood or have such basic accounts that they cannot access the full range of payment methods needed to participate in the multitude of possible financial transactions. When these young adults become responsible for paying bills they are unable to reap the rewards of paying in instalments by direct debit and the cost of transactions can start to mount up. Alternative options such as pre-paid services are limited and generally more costly; for example research has found that coin operated meter usage could increase the average gas bill by up to £80 per year. (Kempson and Whyley, 1998, Kempson et al, 2000).

Lacking access to financial services

Most employers expect to pay wages through a bank. It is unusual for regular wages to be paid as cash or cheque in Britian. This may thwart job search activity amongst the unbanked. Furthermore, if young people without access to a bank account are paid by cheque, even receiving their first pay packet may bring feelings of marginalisation, as they cannot cash a cheque without incurring costs.

Without a bank account, even such basic procedures as cashing or writing cheques are problematic. Using cheque cashing outlets is expensive, and alternative payment methods such as postal orders are also more costly. Cheques cannot be cashed by a relative or friend since the introduction of crossed cheques in 1992.

Access to mainstream financial services allows considerable flexibility to save or borrow, and to purchase insurance protection against unforeseen events[1]. Conversely, those without access to banks and financial providers are less able to manage their money in any long term, planned way. Without a bank account it is hard to find the flexibility to move money around and pay in instalments for longer term security.

When adults do not have access to a bank, they may make savings, but cannot easily borrow money to make up short falls. Neither can they set up regular payments to cover the cost of insurance or a pension. The combined lack of these products can cause considerable hardship. Consider, for example, the issue of being uninsured. Young people may not have thought insurance an important purchase, but any loss of necessary belongings, or of income through illness, can result in an urgent requirement for funds. Where savings are available these can be used to make necessary payments, but for those with no banking relationship, who have not saved any cash, the only way to manage in a financial crisis is through borrowing or spending from current income. Unfortunately for most, current income will be insufficient to cover anything beyond ordinary expenses.

Borrowing in itself is largely governed by banking access. It is unlikely that a bank will lend to someone with no credit record, and no income. This can force adults of any age to use more costly, alternative lenders. If they have no option but to access more money, then they become easy prey for high cost money lenders. This can lead to an increased reliance on borrowing and spiralling debt (Kempson et al, 2000).

Section 4

Accessibility issues

Some causes of banking exclusion are likely to impact on young people disproportionately. Where these causes are transitory, such as short term unemployment, there is little concern, but for some people the situation and effect

[1] It used to be possible to buy insurance in cash from doorstep salesmen, but this is increasingly rare (see Kempson et al, 2000).

may be persistent. This section highlights the more common reasons for remaining unbanked during early adulthood.

Opening an appropriate account

In most developed nations a minority of adults have found banks unwilling to open an account for them. This most often happens to individuals who have a history of bad debt, but banks may also refuse to open an account for a young person simply because they don't have the required level of income. Several researchers have found that people on low incomes or claiming benefits are, on occasions, refused an account outright or advised to go to another bank (Collard et al, 2001; Kempson and Whyley, 1998; Kempson, 2000). This is a particular concern when considering the 10 per cent of young people who are economically inactive and therefore unlikely to have any income.

Recent research by the Banking Code Standards Board identified that verifying an individual's identification has become problematic for people wanting to open a bank account. In particular, mystery shoppers found that staff did not know about acceptable forms of identification other than passports and driving licences (Knight, 2003). This is likely to be especially difficult for young people, particularly if they still live at home and have not yet started to drive. Identification issues also have disproportionate effects on people on low incomes (including young people) since many of the standard forms of identification are costly and may be of little use (such as a passport).

Most British banks and building societies offer a basic bank account with no overdraft facility, aimed at lower income people with limited requirements. These accounts have been specifically created to reduce exclusion, and may be more appropriate to the needs of many young adults than a conventional current account. It might be expected that these would be an excellent introduction into banking for young adults with modest needs. Unfortunately, there is still much improvement needed in the promotion of these accounts. Research has identified several problems: for example customers may not be told about basic accounts if they simply ask to open a bank account and, even if they specifically ask for a basic bank account, they may be steered away from one (Knight, 2003).

In addition to supply side problems preventing some young adults from opening accounts, there are also psychological barriers preventing a minority of people from becoming banked. These take a range of forms, from the straight forward feeling that banks offer something that is neither wanted nor needed, to complex moral and religious objections to banking. Psychological barriers may also include traditional gender based role taking, with the man of the house making all financial decisions and the woman remaining unbanked, possibly even in the event of a separation.

Product Information

If young people are to have continued faith in the financial services sector they must be satisfied with their early purchases. It is therefore important that they know where to go for advice and are able to make informed decisions about the products on offer. Unfortunately, with their limited financial literacy, the whole area can appear to be a minefield.

Many young adults turn to family or friends to get advice about financial products (Dezyk and Slater 2003; Samson et al 2004). Indeed, 45 per cent of young people under the age of 20 surveyed in 2003 used their parent's advice more than any other source of information (Samson et al 2004). It is therefore very worrying that financial advisers have expressed concern that parental recommendations, whilst well-meaning, might be out-of-date (Hutton and Seavers, 2001).

Given their low levels of knowledge, experience and confidence, young people need information about financial products that is accessible and easy to comprehend. However, some young people find that banks give them incorrect information, or assume they know more than they do, for example with regards to how debit cards work (FSCP, 2003). Furthermore some find that they have difficulty understanding all the information they are provided with about financial products and services.

> *It's down to you to read the information but I think it's down to them to put it in terms so you can understand it* (FSCP, 2003).

There is also evidence to suggest that those who had opened a bank account had not read the small print in their contract and were not aware of the terms and conditions of the agreement they had entered into (FSCP, 2003) leaving them open to hefty fees and fines.

Younger adults (21-24) have been found to be less likely than average to review their finances regularly (23 per cent compared with 33 per cent) or to keep a written record of their finances (35 per cent compared with 57 per cent) – putting them at greater risk of falling into financial difficulties (Collard, 2001). . This could be the result of low levels of numeracy amongst this age group, or may simply indicate a relaxed attitude to money.

Section 5

Borrowing and Financial Difficulties

In addition to the problem of a proportion of adults remaining unbanked, some young people face potential exclusion as a result of getting into financial difficulties in early adulthood. As mentioned above, banks may refuse to open an account for people with a history of bad debt. This will in turn decrease the likelihood that they will be able to access affordable credit, and increase the chances of them turning to so called fringe-lenders for this provision. This indicates the need to ensure that young people do not default on their current payment commitments, if they are to avoid becoming unbanked later in life.

Borrowing

Young people need to protect their credit history in order to remain banked throughout their adult lives. Unfortunately, young people aged 18-24 have a higher than average propensity to borrow, and to use revolving credit in particular. Consequently, they are more than four times more likely than other adults to consider themselves over-borrowed.

Re-analysis of data from the DTI Survey of Over-indebtedness (DTI, 2002) shows that in 2002, a fifth of young people were actually overdrawn. Interestingly, while overdraft facilities were much more common in the 20-24 age group, it was the teenagers (18-19) who were more likely to be overdrawn. It seems that the older group had started borrowing on credit cards and stopped using their overdraft. Consequently, whilst eight per cent of 18-19 year olds owed money on a credit card, almost a quarter (24 per cent) of those aged 20-24 had a credit card balance that was not being paid off in full each month. Conversely, while more young adult householders had an overdraft facility, it was the young people who still lived at home who were most likely to be overdrawn.

The DTI survey also provides evidence that many young adults find it hard to control their spending. Half of all young people aged 18-24 agreed with the statement '*I am an impulsive spender and tend to buy things even though I can't always afford them'*. Fortunately the older they were, the less impulsive they seemed to be - over half (55 per cent) of 18-19 year olds described themselves as impulsive spenders, compared with 41 per cent of 20 -24 year olds and just 18 per cent of all adults. This could be a positive finding for the prevention of exclusion, as long as the early impulsive actions of some young adults are moderated quickly before they cause lasting financial distress.

Moreover, it is clear that many young people borrow money with little thought to how easy it will be to repay, and some borrow in the full knowledge that repayment will be difficult (DTI). Re-analysis of the DTI data also indicates that 11 per cent of young people aged 18-24 considered that they had over-borrowed - compared with just four per cent of their elders. It is worrying that the chance of considering oneself to be over-borrowed increases with age for young adults (from six per cent for teenagers to 14 per cent for those in their early twenties).

Financial difficulties

Young people are very likely to experience financial difficulties, especially if they are living as independent householders. Re-analysis of the data from the DTI survey of Over-indebtedness showed that a third (32 per cent) of householders aged 18-24 had been in arrears in the previous 12 months and a similar number (30 per cent) were in arrears at the time of the survey. (The comparable figures for householders of all ages were 18 per cent and 13 per cent respectively). Not all these arrears related to consumer credit – 11 per cent of young householders were currently in arrears with credit commitments, while 25 per cent had fallen behind with household bills. Even so, the level of arrears on credit commitments was nearly three times as high as that found among householders as a whole (4 per cent).

Levels of financial difficulty were also high among young people still living at home - nearly a quarter (23 per cent) of whom said that they had been in arrears during the previous year and 15 per cent said that they were currently in arrears. The high level of arrears among these non-householders is of remarkable given the fact that they would not have had responsibility for paying household bills other than the council tax.

The DTI survey showed that level of arrears differed little between young adults in their early twenties and those in their late teens. In each case about a quarter had been in arrears in the previous 12 months and around a fifth were currently in arrears.

Much attention has been focussed on levels of borrowing among students. As these individuals are less likely to be at risk of being unbanked this paper will not include a consideration of their debts, but it is worth noting that students are borrowing today with the intention of earning high wages in the future. If this does not happen they could face very real problems when trying to access further financial support in the years following their studies.

Section 6

Addressing the issues

Improving Financial Literacy

While young adults aged 16-24 have about average levels of literacy, their level of numeracy and financial literacy is below-average. Confidence in all these skills will almost certainly encourage young people to fully engage with banks. Conversely, a lack of basic literacy can make promotional literature and terms-and-conditions impenetrable and innumerate consumers are at a greater risk of misunderstanding financial forecasts, and key percentage rates. Even young consumers with adequate literacy and numeracy may still struggle to understand the technical and jargonistic language of bank brochures and other financial literature without targeted training in financial literacy.

School is the most obvious place to address the shortfall in skills amongst young people. There has been much emphasis at primary school to improve the teaching of basic literacy and numeracy, with strategies in place to ensure the necessary quality and quantity of teaching in these key areas. It will be several more years before it is known whether these strategies will make a noticeable difference to young adults in areas such as access to banking.

Specific subject focused education is needed to address the lack of financial acumen amongst young people. The Personal Finance Education Group (pfeg) and the Financial Services Authority have worked hard to ensure that personal finance education is seen as an important part of the school curriculum. This is still in its infancy and will not have any noticeable impact for a few years. Indeed research in secondary schools, commissioned by pfeg, has shown that the extent and quality of teaching in this area varies greatly at present and that teachers need more support and training in order to increase their confidence (Thomas, 2004). This reflects the difficulty in trying to increase the range of subject teaching expected in school and the importance of proper support for new subjects.

Not surprisingly, the research commissioned by pfeg found that secondary school pupils expressed very low levels of confidence in all areas of personal finance, even though they were familiar with many everyday financial matters thanks to knowledge gleaned from family friends and the media (Thomas, 2004). For example, between 60 and 80 per cent (depending on their age) said that they lacked confidence in their knowledge of loans, overdrafts and mortgages; a similar proportion lacked confidence in their knowledge of interest rates; while between 40 and 60 per cent did not feel confident about their knowledge of current and savings accounts, bank statements and wages/pensions. This lack of pupil confidence may indicate that these young people were not engaging with information about products that they would not require for several more years, as well as confirming the need for more teacher training.

Encouraging Engagement

Advice and signposting

Engagement can be encouraged by improving accessibility of products and information, and increasing confidence. Services aimed specifically at children and young people are particularly well placed to offer financial advice and support. An example of this is the new Government service Connexions, which supports 13 to 19 year olds, offering advice on all issues pertinent to their personal development, from contraception to employment. Connexions signposts young people to good sources of information about their finances, and could prove to be a positive step towards getting more young adults banked and financially competent. Services such as Connexions are valuable since they become an everyday part of adolescents life, supporting events and activities such as work experience through links with schools and youth organisations. It is important that this kind of service can offer face to face advice and make information available to young people who have poor literacy skills, to overcome the lack of local bank branches.

Incentives to open an account

Recent Government initiatives may give the necessary incentive to young people, now and in the future, to interact with financial services. Some have the explicit aim of improving access to banking. One such initiative, the Child Trust Fund (CTF), will provide new babies with a sum of money in a savings account. The intention, as outlined on the Inland Revenue website, is that "The CTF accounts will help to strengthen the savings habit of future generations, spread the benefits of assets ownership to all, educate people in the need for savings and give young people a basic understanding of financial products." Unfortunately it will be many years before the effects of the CTF will be known. If this kind of initiative is to have a more immediate impact on banking levels, it may be more appropriate to facilitate access to bank accounts for young mothers, and particularly teenage mothers, as well as their offspring; as these young women are more likely to be on very low incomes or in receipt of benefits, and have a higher than average risk of exclusion (see Kempson et al, 2000).

An initiative designed to keep young people in education beyond the school leaving age, the Education Maintenance Allowance, is hoped to have a more immediate impact on the unbanked adolescents contemplating further education. It requires claimants to open a bank account as a condition of payment. With payments of between £10 and £30 per week available to eligible young people it is hoped that this will give them ample reason to engage with banks at an early stage.

In addition to transaction accounts, it would be beneficial to encourage young adults to use savings products. One way of doing this is to offer linked accounts so that each current account automatically comes with a savings account. Some banks currently do this. Widening the provision of schemes such as Saving Gateway and CTF could also be considered to encourage today's teenagers to save for the future.

Improving service and perceptions

Voluntary charters by banks can improve engagement by making account opening straight forward and information readily available, thus sending out a clear message that they are genuinely providing a service for everyone. Charters aimed at improving access for low income adults can be of special benefit to young people, as can careful consideration of identification requirements. The banking code in Britain, for example, sets out standards of good practice for banking and is subscribed to by over 99% of banks and building societies. It several items of particular interest to those concerned with protecting young people and encouraging their engagement with banks in a responsible way. It covers a wide range of issues from the provision of clear information to fair marketing, and if followed carefully by staff could overcome some of the information and accessibility issues mentioned above.

Section 7

Conclusion

A small but significant proportion of young people are currently not making use of financial services. Some, but not all, are likely to remain unbanked throughout their adult lives unless changes take place to improve engagement. For this minority, the cost of operating a cash budget can be high, and the resulting exclusion can cause increased hardship.

Early adulthood is an ideal time to encourage the use of banking, when people are experiencing various transitions. Young people are more likely to open account when they move into work or higher education, and other life events such as moving away from home, buying a car and marriage are all potential catalysts for account holding that are particularly common at this stage in life.

Several areas have been identified where young people face barriers to banking. Some young adults are lacking essential, basic literacy and numeracy skills and are thus unable to understand the specific language and mathematical detail of banking. For others, low income is a barrier to account holding. Identification requirements are also a concern for some young people without a passport or driving licence.

Of those young people currently making full use of financial services, there is a worrying trend towards accessing expensive credit, often on credit cards, and of over-borrowing. Problem debt may well lead to future bank refusal. Some young people are borrowing without considering the repayments, choosing products without getting proper advice, and signing contracts without reading the small print. Many do not properly understand the products they are using, debit cards in particular cause confusion. These factors combined indicate a worrying trend towards short term spending with little or no awareness of the long term consequences.

There have been attempts to reduce banking exclusion, such as the introduction of basic bank accounts. Government initiatives such as the payment of EMA directly into an account may also encourage engagement. More support is available to young people now than in the past, both in the form of education and from agencies such as Connexions. Additionally, banking codes of practice are addressing some of the issues that most affect young people. Increased awareness of these issues will hopefully help more agents to consider their contribution to the unbanked young adult of today.

References

Bivand, P. (2004) *NEET figures continue to rise*. DfES Working Brief, issue 150, Dec/Jan 2004, p.17-19.

Callender, C. (1999) *The Hardship of Learning: Students' income and expenditure and their impact on participation in further education.* Further Education Funding Council.

Callender, C. (2002) *Attitudes to debt*: *School leavers and further education students attitudes to debt and their impact on participation in higher education.* Universities UK

Callender, C. and Wilkinson, D. (2003) *Student income and expenditure survey: students' income, expenditure and debt in 2002/3 and changes since 1998/99*. Department for Education and Skills

Collard, C. (2001) *Consumers in the financial market: Financial Services Consumer Panel annual survey of consumers, 2000.* Financial Services Consumer Panel.

Collard, S.; Kempson, E. and Dominy, N. (2003) *Evaluating policy: a stakeholder assessment of asset-based welfare and money management policy initiatives using a Select Committee approach.* The Policy Press.

Connolly, C. and Hajaj, K. (2001) *Financial services and social exclusion* Financial Services Consumer Policy Centre, University of New South Wales.

Department for Education and Skills Adult Financial Literacy Advisory Group *Lessons for the Future* 2000 (hhttp://www/dfes/gov.uk/adflag/07.shtml)

Department for Education and Skills (2003) *The skills for life survey: a national needs and impact survey of literacy, numeracy and ICT skills.* DfES (Research report 490)

Department for Education and Skills (1), Secondary School Performance, Tables 2003 http://www.dfes.gov.uk/rsgateway/DB/PER/p000445/index.shtml

Department for Education and Skills (2) The level of highest qualification held by young people and adults: England 2003 SFR 03/2004 5th February 2004 http://www.dfes.gov.uk/rsgateway/DB/SFR/s000447/SFR03_2004_v3.pdf

Department for Education and Skills (3) Post 16 Education 2003 http://www.dfes.gov.uk/trends/upload/xls/4_1t.xls

Department of Trade and Industry (DTI) (2002) *Survey of Over-indebtedness*. Not publicly available.

Dezyk, H. and Slater, E. (2003) *Financial services consumer panel research report: Understanding Financial needs.* Financial Services Consumer Panel.

Dominy, N. and Kempson, E. (2003) *Pay day advances: the companies and their customers.* British Cheque Cashers Association.

Emmerson, C. and Wakefield, M. (2001) *The saving gateway and the child trust fund: Is asset-based welfare "well fair"?* institute for Fiscal Studies Commentary 85.

Family Resources Survey (2001) (The 2001-02 Family Resources Survey report is primarily an Internet publication that can be accessed through www.dwp.gov.uk/asd/frs)

Financial Services Authority (2000) *Better informed consumers: Assessing the implications for consumer education of research.* Financial Services Authority.

Financial Services Consumer Panel (2003) *Financial Services Consumer Panel research report: Consumer concerns in Great Britain* Spring

General Household Survey (2001): *General Household Survey - Great Britain* (Population = Individuals in private households. Interviews are attempted with all people in the household aged 16 and over.) See University of York GHS Table http://www.york.ac.uk/inst/chp/hfrtable.

Hesketh, A. J. (1999). ‘Towards an economic sociology of the student financial experience of higher education’, *Journal of Education Policy*, 14(4): 385-410.

Hogarth, J.M. and O’Donnell, K.H. (1999) ‘Banking relationships of lower-income families and the governmental trend toward electronic payment.’ *The Federal Reserve Bulletin* July 1999, pp460-470.

Hutton, S. and Seavers, J. (2001). *Young people, money and risk in early adult life*. ESRC (end of term report).

Jarvis, L. (2002) *Personal finance teaching in schools. Implications for consumer education of research carried out by the National Centre for Social Research*. Financial Services Authority.

Kempson, E. and Whyley, C (1998) *Access to current accounts*. London: British Bankers Association

Kempson, E , Caskey, J, Whyley, C and Collard, S (2000) *In or out?* London: Financial Services Authority.

Kempson, E. and Whyley, C.(2001) *Payment of pensions and benefits.* London: Department for Work and Pensions.

Kempson, E. (2002) *Survey of over-indebtedness*. Department for Trade and Industry.

Kempson, E. McKay, S. and Collard, S. (2003) *Evaluation of the CFLI and Saving Gateway pilot projects*. Interim Report to HM Treasury, London

Knight, R. (2003) *Survey of subscriber institutions on basic bank accounts*. Banking Code Standards Board.

Labour Force Survey customised results
http://www.statistics.gov.uk/statbase/tsdintro.asp

Lebens, W. and Lewis, A. (2001) 'Chapter 7: Are Students serious bankers? The nature of the student-bank relationship in the UK and France'. In: Scott, A., Lewis A. and Lea S. (Editors) *Student debt: The causes and consequences of undergraduate borrowing in the UK*. The Policy Press.

Modigliani, F. and Ando, A. (1963) The Life Cycle Hypothesis of Saving *AER*.

Loumidis, J. and Middleton, S. (2000) *A Cycle of Disadvantage: Financial exclusion in early childhood*. Financial Services Authority.

Morgan, M. Roberts, C. and Powdrill, P. (2001) 'Chapter 2: More money than sense?' In: Scott, A., Lewis A. and Lea S. (Editors) *Student Debt: The Causes and Consequences of Undergraduate Borrowing in the UK*. The Policy Press.

Newell, C. and Winn, S. (2000) *The financial situation of students at the University of Brighton: the ninth report 1999/2000.* University of Brighton.

ONS Social Trends 34
http://www.statistics.gov.uk/STATBASE/ssdataset.asp?vlnk=7308

The Royal Bank of Scotland Group (2004) Face 2 Face With Finance research

Rettig, H. (2001) 'Making ends meet: student incomes and debt' in *Studies in Higher Education*, Volume 26 No 3

Samson, N. Carey, R. and Mitchell, A. (2004) *Young people and financial matters* March. Financial Services Authority.

Scott, A. and Lewis, A. (2001) ‘Chapter 4: Student loans: the development of a new dependency culture?’ In: Scott, A., Lewis A. and Lea S. (Editors) *Student debt: The causes and consequences of undergraduate borrowing in the UK*. The Policy Press.

Scott, A., Lewis A. and Lea, S. (2001) ‘Introduction’. In: Scott, A., Lewis A. and Lea S. (Editors) *Student debt: The causes and consequences of undergraduate borrowing in the UK*. The Policy Press.

Social Trends 34 (2003) Dataset Identification: ST340209 Available from ONS website.

Thomas, L. (2004) *Evaluation of the pfeg Excellence and Access programme.* Brunel University.

Whyley, C. and Kempson, E. (2000) *Understanding small savers: patterns of saving amongst low-to-middle income groups.* Pearl Assurance.