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Agenda

Advancing economics in business

Understanding consumer attitudes to saving

Understanding the individual needs of consumers, from a range of demographics and a number of geographical locations, is no small task. However, as Amanda Mackenzie of Aviva explains, it is knowledge that is actively sought. Obtaining this information by regularly asking people for their views on saving, financial planning and priorities can provide some valuable insights for policy-makers and financial services providers

In the last five years Aviva has carried out extensive studies of individual attitudes to saving and investing. In total, we have surveyed more than 100,000 people in 25 countries in developing our global 'Consumer Attitudes to Saving' (CAS) study.[1]

The 2008 CAS survey was based on interviews conducted with 28,525 people in 25 countries across Europe, Asia Pacific and North America. The survey has grown in scope from 11 countries in 2004 to 25 in 2008. We have published some of the key conclusions from this five-year body of work in a report entitled 'Understanding Consumer Attitudes to Saving 2004–2008'.[2]

Our research has shown that there are many areas where consumers think differently across the globe. For example:

- 63% of people in India said they felt they had all the information they needed to make well-informed decisions about their personal finances, yet only 36% of people in the USA felt they did;

- in Canada, 49% of people said they felt it was the responsibility of the government to provide for the elderly, compared with 88% in Russia;

The top ten shared attitudes highlighted by the Aviva research

1. ***Short-termism*. More than two-thirds of people could not think about their finances beyond five years. Furthermore, this short-termism is growing.**
2. ***Financial vulnerability*. Many people are feeling financially exposed, and only one in four felt that they had sufficient savings to cope with the unexpected.**
3. ***Importance of access to money*. Many people did not want to lock their money away for the long term. More than half said that they preferred to feel that their money was easy to get at, rather than out of reach.**
4. ***Low level of confidence in money matters*. Less than half of consumers felt that they had all the information they needed to make sound financial decisions.**
5. ***Regular saving for retirement was limited*. Across the globe 75% of people are not regularly setting aside money for when they retire.**
6. ***Widespread anxiety about the future*. Nearly two-thirds of people were concerned that they would not have enough money when they retired to provide an adequate standard of living.**
7. ***Changing relationship between the state and citizen*. Less than one in four pre-retired people felt that their government would provide them with an adequate level of income in retirement.**
8. ***Reframing retirement*. Consumer attitudes about when, and how, retirement might happen are changing. In the 2008 survey, more than half of people thought they may *have* to work beyond their normal retirement age to just fund their retirement.**
9. ***High level of risk aversion in terms of personal saving*. Less than one-third of people said that they were prepared to accept a higher level of risk on some of their savings and investments in exchange for a higher possible return. This high level of risk aversion has been maintained throughout the five years of the research.**
10. ***Perceived risk of losing money in financial markets*. This was the third-largest barrier to saving. Most people preferred the idea of products that offer safety and guarantees ahead of higher-potential (but higher-risk) products.**

- in Singapore, 64% of people would like to work, either full time or part time, after the normal retirement age. In France, only 31% of people wanted to.

Of course, there will always be differences in consumer attitudes and behaviours around the world driven by culture, economics and politics. Differences are always beguiling, but in the global economy where we are more interlinked than ever, it is through the similarities between us that potential solutions will emerge. Aviva's report aims to look at some of these similarities and shared attitudes, including a focus on the short term, financial vulnerability, high levels of anxiety about having insufficient savings in retirement, and high levels of risk aversion in terms of personal saving.

Much has already happened since the fifth tranche of Aviva's CAS study was completed. The instability and uncertainty in global markets and the financial sector problems have spilled over into the rest of our economies. This has manifested itself in declining consumer confidence in most countries in which Aviva conducted its survey, including China, western Europe and the USA.

To try and understand what impact the financial turmoil may be having on consumer attitudes, Aviva commissioned an omnibus study at the end of October 2008, which asked 6,000 people in six markets—the USA, UK, Germany, Ireland, Spain and Singapore—to tell us what they thought about saving and investment in the current climate.

These results helped to confirm many of the findings from over five years: people's outlook seems to have become even more short-term; there are higher levels of anxiety about having insufficient savings in retirement; and there is even greater risk aversion in terms of personal saving. In general, there now seem to be more barriers to saving and investment. In particular, more respondents cited existing debt and lack of trust in financial institutions as reasons that prevent them from saving and investing more.

Nonetheless, our research shows that people intuitively believe that saving is a good thing. In 2008, 54% of people said that they believed that regular saving was the key to a comfortable retirement.

However, behaviours do not necessarily reflect underlying beliefs, and low confidence, short-termism and customer inertia still dominate. The slowdown in economic growth over the next few years is likely to reinforce people's anxiety and perceptions that they are living in an uncertain world.

So one of the lessons of recent months is that we must first and foremost restore confidence in the security of global financial markets—so that people know their money is safe, whenever and wherever they save.

Therefore, we suggest that there are eight broad areas where public policy implications need to be further explored.

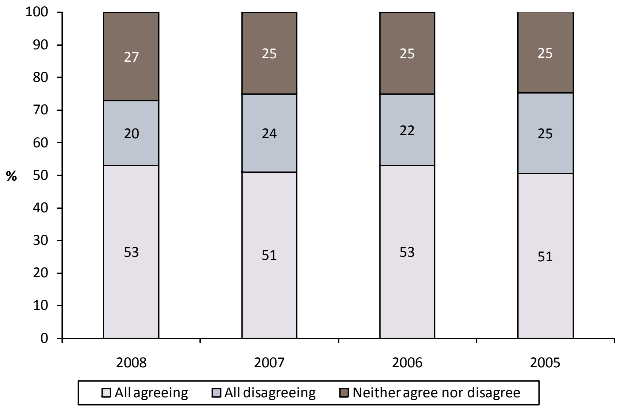
- **Rethinking retirement**. The research highlights a clear need for people to be given appropriate incentives to save. There needs to be a root-and-branch review of how incentives, product features and regulation need to be redesigned to engage 21st-century consumers in pension saving. This is particularly important in the context of the survey findings that many people do not wish to look more than five years ahead, and are relying on alternative strategies for retirement provision. This analysis would need to think beyond 'pensions' and consider the accumulation and decumulation of a broader range of assets.

- **The changing nature of inheritance**. While in the past people may have based their consumption decisions partly on the expectation of receiving a legacy from their parents with a significant property element, this may not be the case in the future. Further investigation may be necessary to assess the effects of this change in the composition (and perhaps size) of financial inheritance. There is a good argument for further work to place inheritance in the context of the credit crunch. This will have an immediate impact on wealth in some countries, but may also influence the way in which people consider property and risk in the future.

- **Working later and the culture of the workplace**. There is a clear role for government and industry to help people manage financially during their extended retirement. The declining ratio of working taxpayers to retired people means that the world of work will need to change dramatically in some countries over the coming decades, both structurally and culturally. Older employees need to be embraced in the workplace, and jobs made available (both full time and part time) to suit their changing appetite and attitude to work. There may also be a need for policies promoting retraining and 'active ageing', including programmes to encourage physical and mental activity so that older potential employees have the skills necessary to undertake work. Figure 1 below presents the findings from our survey that many have accepted that they may have to work past the normal retirement age to fund their retirement.

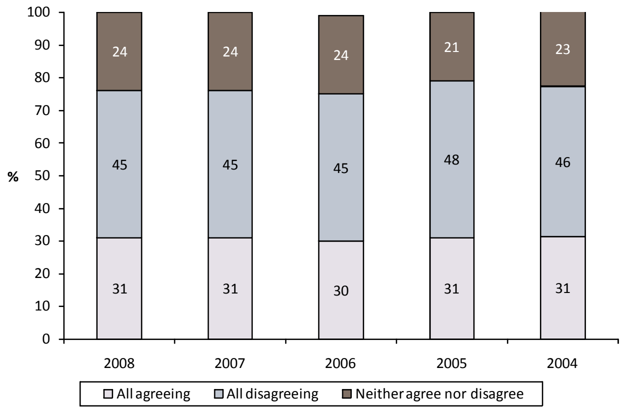
- **Understanding the various barriers to saving**. The financial services industry and policy-makers need to work together to explore the root causes of the real barriers to saving and how they interconnect. Lack of affordability is the most cited barrier in the survey, but feelings of uncertainty and confusion around financial planning may also act as more implicit barriers. While the majority of people are worried that they will not have enough money to provide an adequate standard

Figure 1 'I think I am going to have to work beyond the normal retirement date to fund my retirement'



Note: Figures may not sum to 100% due to rounding.
Source: Aviva CAS study, 11 countries: UK, France, Germany, Italy, Spain, Ireland, the Netherlands, Poland, China, India, USA.
Base: pre-retirees.

Figure 2 'I am prepared to accept a higher level of risk for my savings/investments in return for a higher possible return'



Note: Figures may not sum to 100% due to rounding.
Source: Aviva CAS study, 11 countries: UK, France, Germany, Italy, Spain, Ireland, the Netherlands, Poland, China, India, USA.

of living in retirement, such recognition is not in itself overcoming customer inertia and triggering the required levels of action to address the problem. Further analysis could include an investigation into the extent to which state retirement provision can affect behaviour (eg, how people think about and plan for retirement and the level of personal responsibility they take). Analysis could also include whether a focus in certain areas—such as tax incentives—would result in some barriers falling away.

– **Perceptions of saving 'enough'**. Worldwide, people are recognising the need to look after themselves financially. The perceived loss of traditional safety nets such as guaranteed state pensions is making people believe that they need to take more personal responsibility. Even though the need to save may be recognised, what is less clear is what 'enough' is when it comes to saving (and therefore, whether anxieties over not saving enough are justified). This problem is compounded by people's reliance on informal channels of advice, which could mean that they may use inappropriate reference points to determine their required savings levels. Industry and governments need to work together to develop ways of ensuring that people are able to assess their own financial requirements, and receive advice and assistance in meeting these needs. Further analysis seems necessary to examine the nature of formal versus informal financial advice; the triggers for people seeking a certain type of advice; what constitutes 'advice' to different people; and what it is that people are actually looking for when they seek it.

– **Simplifying consumer information to 'what you need to know'**. There needs to be an independent assessment of the 'core' financial information needed by consumers to make financial decisions with confidence—with an emphasis on 'less is often more'. At a time when there have been concerted attempts by financial regulators and product providers worldwide to increase the amount of information available, in general, people seem poorly equipped, with most feeling that they do not have the right type of information required to make informed decisions.

– **Promoting greater understanding of the nature of risk**. There is a need for collective and coordinated communications programmes to educate people on the role and importance of risk in society. This should include the nature of the risk/return trade-off and the impact of differing investment terms on risk/returns. See Figure 2.

– **Financial capability programmes**. More financial information is available to people than ever before. However, more effective programmes are needed to improve financial capability. Such programmes need to be carefully targeted, and their effectiveness monitored. The balance between spending and saving derives from personal choice, which should be informed by awareness and advice. The measurement of the success of such programmes must include the extent to which people can take action in response—and the extent to which their behaviour changes as a result. Recent research and press commentary has highlighted the fact that there may be a lack of an established methodology for assessing the effectiveness of these programmes. Their usefulness has also been questioned by those who believe that the behavioural characteristics and biases exhibited by people when purchasing financial products will continue to outweigh any beneficial impact from financial education. Such concerns make the effective design of programmes even more imperative, as a successful scheme will need to alert consumers to these biases and their effects, and help them to adjust their behaviour accordingly.

This research has shown that people's lives are more complex and less predictable now, and bear little or no resemblance to previous generations. Day-to-day priorities have squeezed out financial planning for the future. Traditional products are increasingly ill-suited to today's needs.

We have also noted that too few of us think about, and plan for, the long term. As a result, millions of people are worried about how they will cope financially when they are old.

Against the difficult immediate market conditions, it may be particularly challenging to encourage consumers, financial service providers and governments to think constructively about tackling these challenges collaboratively over the long term, especially when the short term is so pressing. However, this is exactly what needs to be done.

In all of this, large insurance companies—such as Aviva—have an important role to play, with a focus on generating more clarity, simplicity, certainty and confidence for consumers. Yet the private sector cannot deliver such a step-change alone: we will need to work with government and regulators to bring new products to market that challenge the established way of doing things—and we need everyone to approach reform with an open mind.[3]

Amanda Mackenzie

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[1] Aviva worked with The Futures Company (formerly Henley Centre HeadlightVision), an international research organisation, in the development of this study.
[2] Aviva (2008), 'Understanding Consumer Attitudes to Saving: 2004–2008', December. Available at http://www.aviva.com/index.asp?pageid=1446.
[3] The findings from the sixth tranche of Aviva's CAS research will be published later this year.

If you have any questions regarding the issues raised in this article, please contact the editor, Derek Holt: tel +44 (0) 1865 253 000 or email d_holt@oxera.com

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