CITY HIVE
THINK TANK

ETHNICITY INVESTMENT GAP:
Closing the gap for equality

CITY HIVE

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Schroders

WHITE MARBLE

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BACKGROUND

CONTEXT

City Hive surveyed a diverse group of individual financial market participants from across the UK and followed this up with a series of in depth interviews with people of varying background, location and knowledge of investments and savings.

Ethnicity and gender pension gaps[1] have been identified by existing research and driven by a number of factors including the ethnicity and gender pay gaps. This tends to result in lower contributions over a lifetime of lower paid or part time work, resulting in a smaller pension pot.

This is undeniably worrisome and only partly addressed by action on the pay gap and the introduction of the government's auto-enrolment scheme (which has an earnings threshold that means those on multiple part-time jobs or the self-employed are often not covered).

There is a strong underlying socio-economic driver in the total gap; essentially, ethnic minorities and women are less likely to hold the positions with the highest remuneration or the most structured pension contributions. But this is not the full picture; our research shows that there is wealth, assets, and savings activity occurring outside of mainstream financial products and providers, for a variety of reasons including lack of engagement or exclusion.

24.4% or£3,350 a year - The difference in pension income for pensioners in the UK who belong to an ethnic minority group compared to pensioners of a White ethnicity (2017-18, according to the People's Pension).

This rises to 51.4% gap between a female pensioner from an ethnic minority group and a male pensioner from white ethnic groups.

THE OPPORTUNITY TO CREATE A NEW CLASS OF INVESTORS

Building on an emerging professional or higher income population will help create a new class of investors, as long as they are identified and engaged with. That means we must optimise female and ethnic minority talent. The 2017 MacGregor-Smith Review into Race at Work estimated a £24bn[2] boost to the UK economy by doing so, and benefits of up to £92bn[3] have been suggested from closing the gender pay gap through increased (formal) participation of women in the economy.

It also means making efforts to have more nuanced and targeted products, communication and advice. The investment industry is only starting to digest the importance of disaggregating data to understand differences between and across groups – the intersections such as age, ethnicity or even location.

For example, the share of the country's working age population from black or ethnic minority background is 14% nationally but rises to 40% in business and finance capitals Birmingham and London, with Manchester close behind. The recency of this changing understanding is visible in the FCA's Financial Lives Survey. The 2017 report (published June 2018) looked at attitudes to finance across the population, but there was only one reference to Black ethnicity in the entire report. Importantly, there was data disaggregated by ethnicity peppered through the 2020 report (released February 2021) but not in relation to pensions. That report understandably focused on the impact of Covid-19, but still demonstrated that there are large groups across the country that are unbanked (1.2 million), that have been refused financial products (3.1 million) and that do not have a pension (9.6 million). It also showed that Black adults were less likely to hold savings (70% vs 79%) or investment (25% vs 35%) than White adults.[4]

[1] For example, Measuring the Ethnicity Pensions Gap, The People's Pension, https://thepeoplespension.co.uk/info/wp-content/uploads/sites/3/2020/01/Measuring-the-ethnicity-pensions-gap.pdf

[2] Race in the Workplace: the Macgregor Smith Review https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/594336/race-in-workplace-mcgregor-smith-review.pdf

[3] Billions to gain if UK improves female employment and closes gender pay gap, PwC, https://www.pwc.co.uk/press-room/press-releases/billions-to-gain-if-uk-improves-female-employment-and-closes-gender-pay-gap.html

[4] Financial Lives Survey, Financial Conduct Authority, https://www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf

[5] Who Gets Ahead and How?, The Bridge Group, https://www.thebridgegroup.org.uk/news/seb-in-finance

[6] PPF pledges action to address ethnic minority pay and bonus gaps, Pensions and Investment, https://www.pionline.com/esg/ppf-pledges-action-address-ethnic-minority-pay-and-bonus-gaps

In addition, representation is an issue both in the leadership of organisations and visibility in public life. Women and ethnic minorities are less likely to be represented in positions of authority and leadership in financial organisations. Research by the Bridge Group[5] of eight financial services organisations showed that 43% of senior roles were occupied by white males from independent or selective schools. The research also showed that those from non-professional backgrounds (designated as the type of work parents(s) were undertaking at age 14) took much longer to rise through the ranks – at 25% slower, with no connection to performance. For these sectors, it means that representatives from less affluent socio-economic backgrounds and those from non-white backgrounds were less likely to be in leadership, therefore less likely to influence product structure, offering or outreach.

We anticipate more action as momentum to mandate ethnicity pay gap reporting gathers, although we anticipate that the data will be challenging to address. There are signals that some organisations are working to be more representative. For example, in March 2021, the Pension Protection Fund reported an ethnicity pay gap of 23% and committed to addressing the low levels of senior managers from Black and ethnic minority groups that was feeding the gap.[6]

Increasing participation and representation will require a combination of measures, with the policy response critical in doing more to support lower income earners. Interventions to introduce financial literacy and clear pathways to financial security for younger populations will also help to normalise conversations away from a focus on retirement and unwelcome thoughts of old age, to creating wealth to provide security and attain goals.

The focus of this report is to look at what can be undertaken by investment firms to attract increased and sustained participation from women and ethnic minority groups that are in a position to save and invest, by understanding more about their motivations and lifestyles.

KEY FINDINGS

CULTURAL FACTORS

- Investment is often presented and interpreted as something elite and for those with money, rather than through a lens of relatable financial security.
- There is strong demand across the board for more relatable role models that can demonstrate positive financial behaviours with realistic trajectories.
- Cultural practices set higher value in tangible assets such as property – as a measure of security, rather than to achieve returns - even if a hot property market is a practical barrier to acquisition.
- There is 'hidden' wealth due to (existing or inherited) lack of trust or exclusion and the capital isn't working hard enough.
- Advertising around pensions and investment rarely reflects the diversity of our society and so people don't engage with it. While there is an awareness of billboards, they don't resonate or stick.

KEY FINDINGS

FINANCIAL LITERACY AND BEHAVIOUR

- Financial literacy and behaviour is based on informal acquisition of knowledge, rather than using the official, regulated information that is available, which reinforced community-based activities
- Gaps in financial education begin at a young age, and younger people only stumble across finance and investment by accident – they don't seek it out, both through lack of knowledge and interest, and no one is bringing it to them.
- The difficulty in separating attitudes to finance from the financial situation present during early years. Insecurity about money or lack of access to goods and services creates behaviours and practice that aim to create short-term availability or security but may impede long-term saving and investment. This can be compounded by a lack of trust in mainstream financial institutions inherited from older people that faced direct discrimination or exclusion.
- Some people struggle to transition beyond developing a savings habit to cultivating investment practice, and it's not simply due to lack of funds. The investment world can look intimidating or like a club you need to meet conditions to join.
- Day-to-day spending priorities take precedence over future planning. This isn't just debt servicing; it's also housing and food costs and especially where children or other caring responsibilities come into play. It can be difficult to justify the up-front loss of access to money when these needs take precedence. This can be combined with a feeling that a lot of money is needed to invest.

KEY FINDINGS

ATTITUDES TOWARDS FINANCIAL SECURITY

- There is a disconnect between the abstract need for action and the reality of taking it. People believe they still have time to act, and even if they objectively accept that acting sooner will mean a bigger pot or security, fail to take action. This can be due to administrative barriers such as not understanding where to look for information that is applicable to them personally (as most seem to understand that there is plenty of information around).

- People view retirement as a time for leisure, hobbies and supporting younger family, but they don't know how much money they will be retiring on and largely expect their pension-drawing years to be lengthy.

- Men are more likely to be planning for the future with investment-related activity, with women more likely to be saving.

- Black respondents appeared to be most engaged and proactive about their financial futures, Asians the least.

- Younger people engage with online forums, while older groups seek IFA advice.

RECOMMENDATIONS AND ACTIONS

The findings of our report show an unsurprising intersection of factors that affect attitudes, knowledge and behaviour, including age, gender and ethnicity. Based on this, we suggest the following recommendations for the asset and investment management industry across three key areas:

1. HOW WE COMMUNICATE
2. HOW WE OFFER ADVICE
3. HOW WE UNDERSTAND FUTURE CUSTOMERS

We suggest establishing focus groups to explore some of these themes in more detail. You should also ensure that all the measures taken happen across your supply chain – there's no point in putting in the effort without ensuring the message is being carried through your sales teams, advisers and elsewhere.

1. HOW WE COMMUNICATE

- Be truly open to growing new markets and clients. In order to create a known target with a track record of buying, you need to create the initial conditions for activity – otherwise, you will be returning to the same, saturated market areas.

- Fill the relatability gap: create marketing that appeals because it is inclusive. Ensure that all product marketing (and where possible development) is integrating diversity within its approach, not trying to retrofit. People want to see themselves positively and realistically represented and they want to see how they can control their own narrative towards financial security. This could include looking at role models in the same age or income age bracket and potentially using the growing market of social media influencers.

- Simplify the way we communicate about pension and investment savings to remove the jargon and clarify the benefits and the costs.

- Spend money in the places people are looking for information – for advice, go online rather than television or radio.

2. HOW WE OFFER ADVICE

- Support IFAs to create better, targeted advice and products that cater to and/or replicate community behaviour or community needs. There are issues on each side of the IFA relationship; the sales teams from investment houses need to be effectively communicating with IFAs, and IFAs need to be invested in a more diverse offering.

- Empower all communities to pursue their own financial security: make it easier for customers to see how what you are offering is what they want. Availability of information is not the issue, it's how to personally apply it. This could be partially about perception (compounded by other issues), and partially addressed by better signposting and targeted communication.

- Identify ways to connect with IFAs and social media influencers to tailor advice and bridge the relatability gap.

3. HOW WE UNDERSTAND FUTURE CUSTOMERS

- Cultivate an understanding of the young investors and investors of the future to capture their interest early. This includes where they engage and how (such as social media platforms) and look for authentic youth-created content rather than attempting to replicate it. Younger generations communicate in different formats, times and sometimes different language. Your serviceable materials may not be translating.

- Address financial education at an early age, for example by supporting educational materials being brought into schools that help to develop financial literacy and an understanding of the importance of autonomous financial security. To create long-term changes in behaviour, early intervention is needed that is either directly relevant to lifestyle or offers a clear pathway to financial security.

ABOUT THE REPORT

THIS RESEARCH REPORT:

- Highlights the level of knowledge and engagement around financial literacy within ethnic minority groups;
- Pinpoints causes of the pensions gap and barriers to addressing it;
- Defines the issues faced by different ethnic minority groups, with an understanding that there are differences between black and ethnic minority women and men;
- Supports you to understand how you can increase the understanding, knowledge and participation in the industry;
- Enables further research on other global markets.

The goal of the research was to speak to communities that are generally not asked about their behaviours and attitudes towards investment and personal finance, to understand personal experience, community practices and general sentiment. We have created recommendations from this research for the investment industry, with the aim of increasing outreach and product availability, making better use of existing information and ultimately increasing market penetration.

The research was not intended to replicate existing data that confirms the existence of an ethnicity and gender pension gap, nor to provide policy recommendations – although there is some evidence that the regulatory environment is constraining innovation in some areas.

This is an exploratory study with findings that can be explored in more depth with further research.

METHODOLOGY

The study had three components;

1. Existing and contextual research on the pensions and investment gaps that guided the themes;

2. In-depth interviews with a range of men and women across demographic characteristics, all of whom were non-white. We explored the concepts and themes that are presented here from their insights, including community-specific elements;

3. A survey on general financial attitudes and practice (as a precursor to investment practice) which was shared with white and non-white respondents.

FINANCIAL PRODUCTS & INFORMATION

Key challenges:

- Financial literacy and behaviour is based on informal acquisition of knowledge, rather than using the official, regulated information that is available, which reinforced community-based activities.

- The difficulty in separating attitudes to finance from the financial situation present during early years. Insecurity about money or lack of access to goods and services creates behaviours and practice that aim to create short-term availability or security but may impede long-term saving and investment. This can be compounded by a lack of trust in mainstream financial institutions inherited from older people that faced direct discrimination or exclusion.

AWARENESS OF AVAILABLE INFORMATION

One of the first questions we asked was whether consumers had knowledge of the significant information and advice available that is produced by the industry, from official sources and from other informal pathways. We wanted to find out if the industry resources – which are comprehensive – were easily accessible and useful.

Our research showed that there is an application gap. Industry has created a wealth of information on finance and products, and our research showed that people are aware it exists and how to access it. People also understood the benefits that financial security could bring in the abstract. They had clear opinions on what would be most suitable for their own lifestyle, but crucially, didn't often see themselves represented. Practically speaking, this reinforced their reliance on informal sources to decide how to save, spend or invest or whether a certain product was appropriate for their lifestyle.

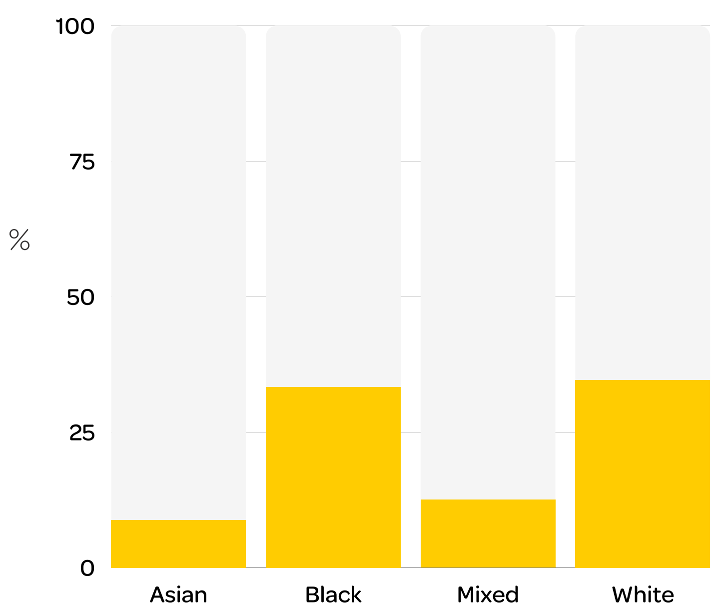
The knowledge in play as an adult was highly influenced by (and therefore sometimes constrained by) the nature of exposure to finance during upbringing and this reliance on informal networks. A recurrent theme in the survey and interviews was the role of family, friends and community in shaping views and experiences of money that were carried through to adult life. These could result in opinions and behaviours that would persist unless interrupted by a significant life event – such as a job that provided direct exposure to knowledge of finance, or the threat of long-term financial insecurity.

HOW REALISTIC ARE VIEWS ON RETIREMENT?

Respondents painted a picture of retirement full of pleasures; 85% wanted to travel, two thirds wanted to learn new skills or hobbies, and almost as many to simply enjoy being at home. Over half wanted to support younger family members.

The responses suggest that people strongly connect retirement with a freedom to enjoy life. There were some differences in magnitude – Black respondents were highly motivated across all activities, and in particular to travel (95% of respondents). They were also most likely to want to support younger family members (65%).

DO YOU KNOW HOW MUCH MONEY YOU WILL HAVE TO LIVE ON WEEKLY IN RETIREMENT?



And yet overall, almost three quarters of those surveyed did not know how much money their savings, pensions and investment would translate into upon retirement – this fell to just 10% of Asian respondents (compared to one third of Black and White respondents).

That is despite half of respondents expecting to collect their pension for over 20 years, and two thirds for 16+ years.

WHERE DO YOU GO FOR FINANCIAL INFORMATION?

The survey indicated that for most people family and friends is still the biggest source of information and advice, which means the quality of financial decisions depend on the level of sophistication and knowledge available in social groups. The exception was amongst Black respondents, who pointed to specialist journals and IFAs as their most likely source.

This influenced the ongoing engagement with financial products and advice, due to a 'relatability gap'. Understanding this will be key for marketing teams to be able to ensure products are attractive and appropriate.

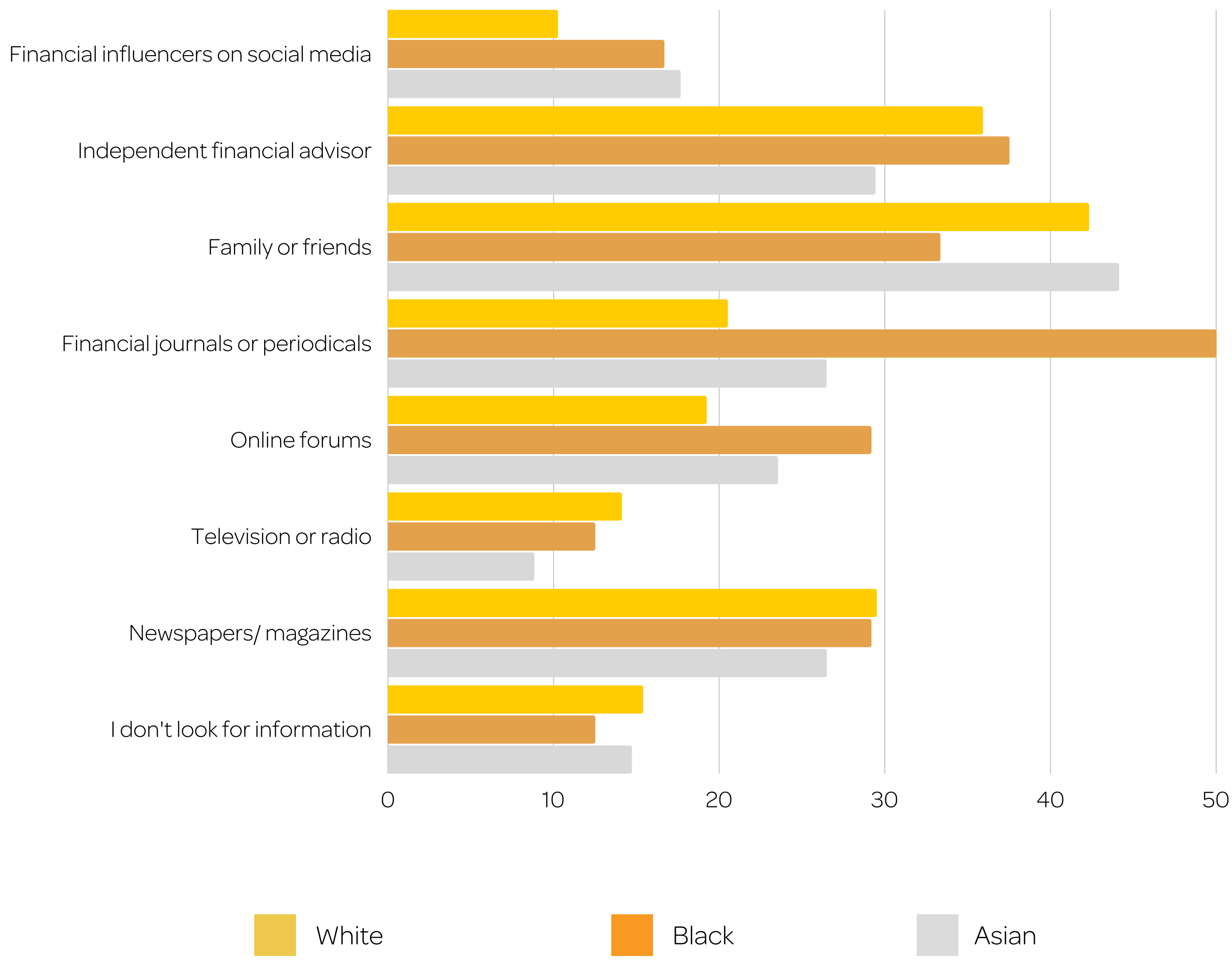


Figure 2 source of financial advice by % of respondents.

We see three primary areas of disengagement from mainstream products:

1. Narrow marketing of products;

2. A potential imbalance in spending on where people are seeking advice – the last place people are looking is television or radio, for example and;

3. A lack of relatable role models (more on this later). Product use came from necessity and due to a lack of choice – for example, needing a mortgage to buy a house.

With respect to the gap in how that information is directly applied to an individual, and in the clarity and transparency of the information, there is an opportunity to support IFAs to better tailor advice, and to make them aware of the barriers that exist beyond knowledge – some of which are discussed below.

SAVING AND INVESTMENT ACTIVITY

Key challenges:

- Some people struggle to transition beyond developing a savings habit to cultivating investment practice, and it's not simply due to lack of funds. The investment world can look intimidating or like a club you need to meet conditions to join.
- Cultural practices set higher value in tangible assets such as property – as a measure of security, rather than to achieve returns – even if a hot property market in the UK is a practical barrier to acquisition.

HOW ARE PEOPLE SAVING?

35% of men said they had an investment portfolio, while only 12.5% of women did. Male respondents were more likely to hold a Stocks and Shares ISA (53% compared to 41% of women) and more likely to be using money management apps – although the instance was low across the board (9% of men and 2% of women).

The picture by ethnicity was more complex. White respondents chose a mixture of methods of savings but were more likely to have a private pension and less likely to have cash compared to other groups. Black, Pakistani and Indian respondents were more likely to rely on savings and property.

We wanted to understand the mechanisms being used and whether they differed across intersections of age, gender, ethnicity. We also wanted to understand whether there were informal mechanisms taking the place of formal financial products or companies, and if so if they were competing or complementary.

To many, investing is something you do when you have money and this can be a psychological barrier against starting, even in a small way. The reality for many, and the driving force behind auto-enrolment pensions, is that most financial obligations are much more immediate than saving for retirement, which is a problem to be faced when it comes. Buying household staples, paying rent or mortgage, dealing with emergencies all trump saving; a rational approach in the short term. For some communities, there may be a cultural expectation that younger family members will ensure elders are looked after into retirement. Others prefer to invest in assets such as property, which offer security in a more tangible way.

INVESTING IN COMMUNITY BASED SAVINGS SCHEMES

In our interviews, community connections played a significant role, especially when looking at how to enter the financial market.

For example, some needed the opportunity for a soft launch through informal lending or community-based savings schemes, which cropped up with different names in different communities (for example, 'pardner' or 'committee'). This typically requires regular contributions to a central pot over a period, with a fixed date for withdrawal of a lump sum. This acts as either a no-interest loan or a regular saving vehicle, depending on where in the rotation you are. Some lean on a common practice of an 'elder' or trusted community leader to provide security. These are known as rotating savings and credit associations (ROSCA), and generally come with advisory because they are not backed in the same way that a regulated financial product would be.

However, this practice, strongly centred on community, has helped to provide many with the confidence needed to navigate the more intimidating waters of the mainstream financial marketplace. In fact, for elder generations, it may have been the only viable way to access finance, due to lack of necessary paperwork or inability to meet the (sometimes arbitrary) qualifying conditions. Due to the absence of interest accrual or payment, these schemes also offer an alternative that meets Islamic finance requirements. And they can also provide services to the unbanked, which tend to be from lower income groups.

There may be an opportunity to consider acknowledging some of these community practices, which may be akin to better known peer-to-peer lending examples.

FINANCIAL EDUCATION AND EXPERTISE

Key challenges:

- Gaps in financial education begin at a young age, shaped by home and community practice. As youth do not know what their knowledge gaps are, they don't attempt to fill them in unless they are exposed to the industry or face a financial issue that requires action (most likely debt-related). Neither is knowledge brought or presented to entry-level financial market participants.

- Scarcity of money at a young age causes risk-avoidance and can paralyse financial activity into short-term spending decisions, or failure to shift from instant-access savings into investment.

A lack of financial expertise in the family home means that subsequent generations will not be taught how to manage their finances in a long-term and sustainable way. Several people described a scarcity of money when they were growing up and so when it appeared the tendency was to spend it, especially if the answer to 'Can I have it?' was usually 'No'.

Finance was also intrinsically linked to things that were highly tangible; cash, consumer goods and property. Some talked about focusing their attention on achieving a feeling of financial security through physical assets and belongings, rather than something more abstract.

Positive habits were also observed, and these were predominantly localised, such as participation in community saving schemes or the accumulation of cash. Another interviewee spoke of an awareness of cash money when a child, seeing the successful small business operation of a family member. Of course, children don't see the whole range of financial behaviour. In all likelihood, young people only witness one half of transactions rather than the full balance sheet of the home, and so they will have gaps in their knowledge that might emphasise the role of one type of financial instrument. The connection from income to securing money into an investment or assets may not be clear.

There is a gap to be filled in how finance more broadly acts as a mechanism that a young person will one day participate in. This would help to develop savings and investment behaviours. For those entering the workplace and embarking on financial participation, a helpful bridge is through relatable role models that can demonstrate learned behaviour and progress towards goals. Advertising, product targeting and communication rarely do this well (see later).

[7] City Hive Interviews with ethnic minority respondents, April 2021.

This is especially important as when money is scarce in childhood, it can mean a feeling of insecurity that pursues into adulthood, affecting risk perception and saving/spending behaviour. In depth interviews served to underscore the importance of learning about finance at a young age. Habits observed and formed in the home were carried into adult life and only disrupted by significant external events, such as exposure to finance and investment through work, or a hardship event that forced behavioural change.

Even when a person has access to disposable income, the bias for action in many cases is fear. While they may seek security from building up savings, there is then a psychologically difficult barrier to progressing to investment, even if this means their money working harder. Investment equals risk – of losing the investment but also the risk of not being able to access liquidity in a time of need. There is also a competing need to achieve security through physical assets, and so money will be directed towards, for example, property and mortgages.

PERCEPTION OF INVESTMENT

Key challenges:

- Investment is often presented as something elite and for those with money, rather than through a lens of relatable financial security.
- People need to see relatable role models demonstrating positive financial behaviours.
- There is 'hidden' wealth and it isn't working hard enough.

"I GET VERY FRUSTRATED BECAUSE I CAN'T GET MY FRIENDS TO UNDERSTAND THEY NEED TO BE INVESTING FOR THEIR FUTURE NOW"[8]

We wanted to look at attitudes towards investing, to understand whether there was an absence of investment or practices we were missing.

Despite the democratising efforts of platforms one of the barriers to participation is a belief that investment (in its traditionally understood sense) is something that wealthy people do, or indeed something you'll do in the future when you are wealthier. There is a sense that you need to wait until a particular level of income before being able to participate in investment activity. Inability to inaction in starting investment means sliding into an ever-widening wealth gap.

For many, investments are abstract and not inclusive. The 'investment world' feels closed off. This is for several reasons including the industry vernacular used and the failure to create inclusive adverting (see below). This creates a disconnect, where there may be some investment and savings activity, but it is far from optimised.

It is important not to overlook the existing forms of savings and investment that are taking place in different communities. For those that experienced being excluded from formal banking and investment products, there is both a feeling of insecurity and lack of trust that can lead to habitual saving of money in a way that means it's not working hard enough. Much like older generations putting cash under the mattress or floorboards, there are informal but ready to access amounts of cash.

8 City Hive Interviews with ethnic minority respondents, April 2021.

Unfortunately, these sums are not benefiting from interest and indeed are seeing attrition from inflation. Other less liquid versions of this include investment in property that is handed down through generations. This 'hidden' investment is hard to quantify, but it is clear it could be working harder for both investors and the potential clients. The mechanism to do so is bridging the gap between investors and communities, but understanding the reasons underpinning the behaviour and being able to offer reassurance to build trust but also suitable products that gauge the level of risk, access and style of investment that would be appropriate.

Our conclusions from almost every conversation led to the importance of role models, whether it be to showcase the role of different financial instruments or to demonstrate good financial behaviours that were relevant to people at different stages of their lives. In particular, showing younger role models or those that had embedded good habits when young, was seen as important. These role models also need to be appropriately relatable.

There is also scope for relationship and capacity building with IFAs and other sources of advice to support this outreach. Our research indicated that the available advice is not as inclusive as it could be, in terms of the way that advice is offered and tailored. Generally, it is based on a narrow audience of known profiles. For those outside of the target audience, advice is workable but not appealing and potentially will be inaccurate due to failing to tailor risk/return profiles, life circumstances and key factors that affect long-term life planning.

The biggest ask with regards to product uptake was for clear product information with transparent data on returns.

Key challenges:

- For women in particular, priority is given to day-to-day outgoings, including debt-servicing, housing and food costs. This is exacerbated by costs related to childcare and other caring responsibilities.

- There is a disconnect between the acknowledgement that there is a need to save for the future and the timeframe for doing so. Convincing people that acting earlier is logical, rational and will save money in the long run is a real challenge when there are pressing short-term costs to meet and discussions around retirement and, effectively, death, are not welcome.

We wanted to understand whether people were aware of the objective advantage in starting investment activity early in order to reap bigger gains later on, or whether they were unable to focus on investment due to more pressing issues. There is some complexity here – there is a disconnect with the objective reality that one day people will retire, a subjective dream of what retirement offers, and the concrete actions that people can bring themselves to do in the present. A fear of contemplating old age leads to procrastination and a doubling down on 'youthful' behaviour.

It may of course be the case that investment, despite its long-term advantages, may need to be pushed down the priority list to meet immediate needs. However, whether or not these are fairly balanced is another question.

TWICE AS MANY WOMEN SURVEYED – ALMOST 30% - SAID THEY NEEDED TO PUT SPARE MONEY TOWARDS HOUSEHOLD EXPENSES COMPARED TO MEN.

23% OF WOMEN PRIORITISED DEBT REPAYMENT, COMPARED TO 15% OF MEN.

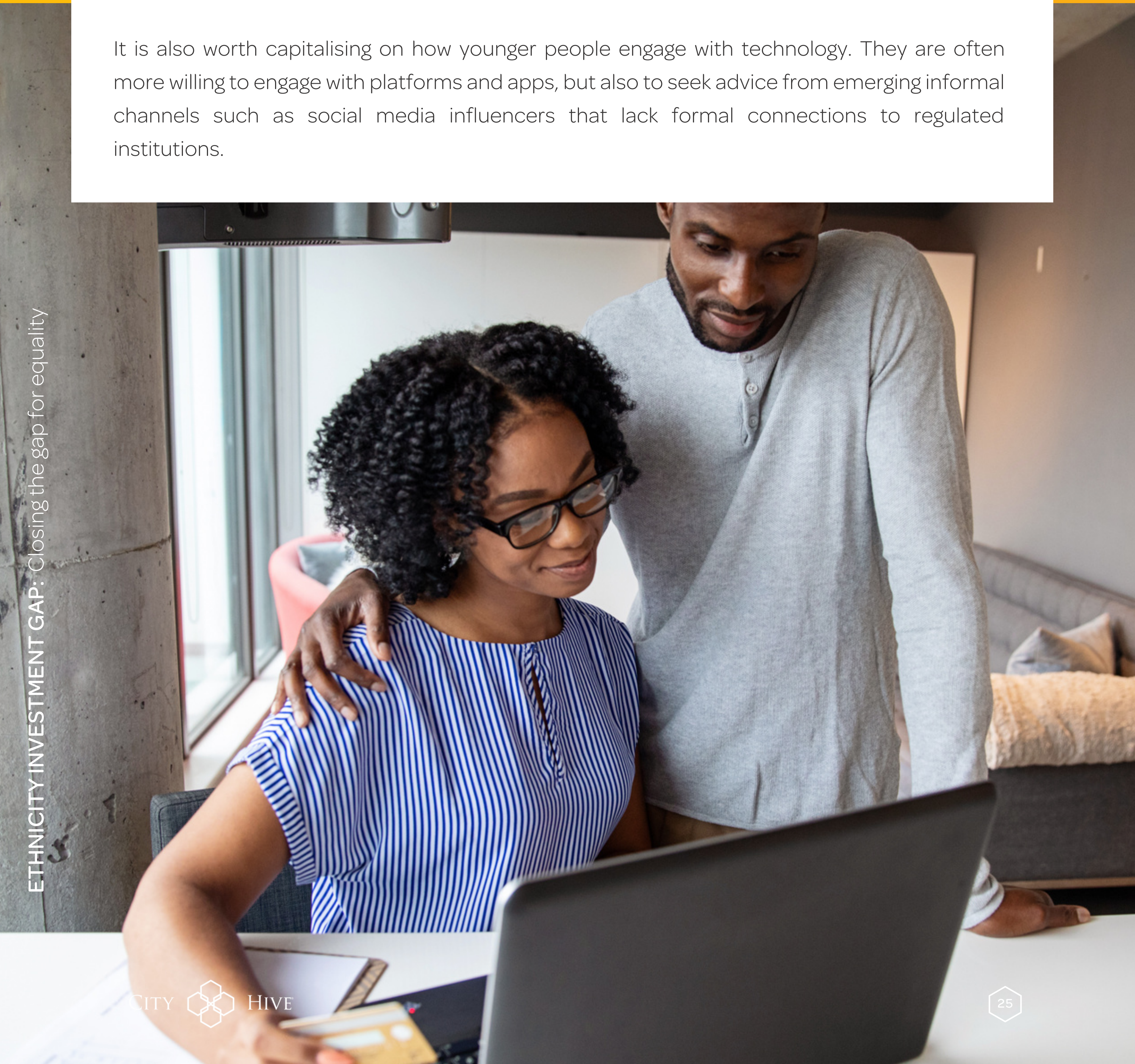
15% OF WOMEN SAID THEY HAD NO SPARE MONEY, COMPARED TO NONE OF THE MALE RESPONDENTS.

For women, there is an additional lens of responsibility for household outgoings, and notably childcare. Childcare costs tend to be measured against female income, rather than as a percentage of the whole household. Women make necessary but short-term decisions on spending for staples. Even in households that are relatively evenly balanced before children, afterwards gaps can emerge.

We noted a feeling of pensions being seen as slightly nebulous, related to further down the line and therefore something that can be put off – either from the individual or their peer group. This was sometimes combined with a lack of understanding of the benefits of starting young – through compounding, or even more general financial knowledge. Women also talked about the priorities that appeared and needed to be met before the thought of saving or investment.

In some responses age was the most significant differentiating factor in survey results, as we'd expect behaviour to become more organised over time, for concerns to manifest with age and for competency and understanding to emerge. However, even small differences in attitude can become much more pronounced over time. This means targeting younger audiences to embed good habits as early as possible, so that small differences don't become compounded over time.

It is also worth capitalising on how younger people engage with technology. They are often more willing to engage with platforms and apps, but also to seek advice from emerging informal channels such as social media influencers that lack formal connections to regulated institutions.



Key challenges:

- Advertising around pensions and investment rarely reflects the diversity of our society and so people don't engage with it. While there is an awareness of billboards, they don't resonate or stick.
- Online magazines and journals and dedicated finance materials are where people want to find financial information.

We wanted to understand how people interact with marketing and whether they felt engaged or inspired by what they had experienced. It was clear from our survey that online advice, forums or specific financial writing was valued over that from television or radio. Hardly any respondents reported getting financial advice or information from the television or radio; these mediums are much less used than online forums, specialist websites or online news, and this went across age groups, gender and ethnicity.

Despite the significant amounts spent on advertising it's not clear that billboards or taxi wrappings work. We noted a disconnect between how adverts portrayed individuals and the individuals looking at them – in short, a relatability gap. This was compounded by a slightly different issue, a disconnect between the information available – despite the development of information-rich portals, people couldn't apply the data to themselves.

Most adverts target and centre on men, and a particular set of men who have achieved financial security and have disposable income to spend on leisure – because they are a known quantity (a clear Ideal Customer Profile).

"UNFORTUNATELY, THE LACK OF DIVERSITY IN COMPANY LEADERSHIP IS CLEAR IN THE WAY PRODUCTS ARE DESIGNED AND MARKETED" [9]

When women are the target of advertising, it can be tone deaf; examples include pink-themed materials, or savings and investment being targeted towards goals like saving for a wedding. This happens when there is no diversity in the development and decision-making process.

More positive examples of inclusion have been seen from building societies such as Nationwide and Halifax, for putting non-white people and women generally as central to campaigns, without directly referring to these characteristics. Treating them, if you will, as normal customers needing access to mainstream products. This is important for investors to take on board; the market that is poorly understood by the broader population in many localities. This is expected to change over time, however, with the shift to defined contribution pensions and the advent of auto-enrolment; the comparative knowledge of the average consumer in Australia is useful, where there is more engagement from pension providers and from consumers.

9 City Hive Interviews with ethnic minority respondents, April 2021.

The emergence of retail platforms and other disruptors will also play a role in changing how people interact with the market. Investment firms are not relatable in the same way a bank is; banks have a central role in financial management and a high degree of customer loyalty. And investment management firms with retail banking arms are capitalising on this – see HSBC's 2021 advert of a yoga-stretching woman.

An internet search of the term 'investor' from March 2020 brought up images of men – almost overwhelmingly white – standing by graphs, looking at numbers, talking to other men and shaking hands. You have to scroll a long way to see a woman in the stock photo – and you have to go past a primary school aged boy dressed up as an investor to do so. To see a black man, you have to scroll more than 50 images, and you only get the back of his head, out of focus. It took a lengthy time to find a black woman – as a cartoon.

So, when an entire industry is ignoring the existence of your community, it's hardly a surprise that levels of trust are lower and the likelihood of using those products and services will be lower.

Despite these portrayals, the informal ways that people manage money are much less individualistic, and there were no significant gender differences between the types of activities sought in retirement. The responses indicated that for women with the income available to invest, advertising that acknowledged that women are just as likely to be considering spending on things such as leisure and assets such as cars, would be welcome. Advertising that speaks to community or family might be more appealing and inclusive, meaning we could move away from the tired divisions in advertising that focus on sporting hobbies and consumer goods for men, and investment in family and home for women.

FOCUS ON – ISLAMIC FINANCE

We talked about religion during interviews as there was often a connection to community practise (the survey did not explicitly ask about religion). It is a very important cultural lens for a significant minority in the UK (almost 5% of the population according to the last census and including around 10% of those who identify as Black and Muslim)[10] and a much bigger global market. Yet in order to fully participate in the UK financial market for savings, investments and mortgages, Islamic constituents have to compromise on some part of Islamic finance principles, or incur a higher cost from 'specialist' high-street offering.

Islamic finance has a specific set of ethical rules, the main element that charging interest or using a product that includes interest is forbidden as against Islamic principles. While there are products that cater to Islamic customers, they can be perceived as meeting the requirements on paper but perhaps falling short in spirit.

For Muslims, the choice is often between community-led mechanisms that rely on their access to a suitable mechanism and the community group, or using mainstream products that might leave them feeling ethically compromised. Market penetration by Islamic finance banks in the UK is proportionally lower than the Muslim population of 7% (four banks hold assets of US$5bn, less than 0.3% of the global total of Islamic banking and less than 4% of the UK's banking market)[11]. But Islamic Finance has been identified by the Bank of England as a target area for growth, with an Alternative Liquid Facility launched in late 2020.

The bank recognises that Islamic banks are on an uneven playing field due to their inability to access the types of interest-bearing instruments that other banks can. But it also notes that the fact that Islamic banks had been forced to rely on large stocks of cash had helped them to weather the financial crisis and the stresses of Covid-19 during 2020. And further, it recognised that one of the key and originating tenets of Islamic finance was effectively ethical investing.

The failure by the finance industry to capture the parallels between Islamic Finance and sustainable finance is rooted in a cultural lack of understanding and is a significant missed opportunity. Products with ethical underpinnings that meet Islamic finance criteria are not developed or marketed as having a broad appeal for the impact they would have as a product, but as catering to a 'niche' need. This also fails to recognise the potential market size of Islamic investors – there is a growing cohort of professionals that would welcome relatable products.

10 British Muslims in Numbers, Muslim Council of Britain, https://mcb.org.uk/report/british-muslims-in-numbers/

11 https://www.bankofengland.co.uk/-/media/boe/files/speech/2020/why-islamic-finance-has-an-important-role-to-play-in-supporting-the-recovery-from-covid.pdf?la=en&hash=58B28008CE026D33B0590F7DB5CDA84DAE723CAD

CONTEXTUAL SURVEY DATA

ABOUT THE RESPONDENTS

The survey was intended to get a snapshot of financial practice and attitudes. Of the 160 respondents, 73% of respondents are women and 50% of respondents described themselves as an ethnicity other than white. Respondents covered all categories of ethnicity (census categories) with the exception of Gypsy or Roma.

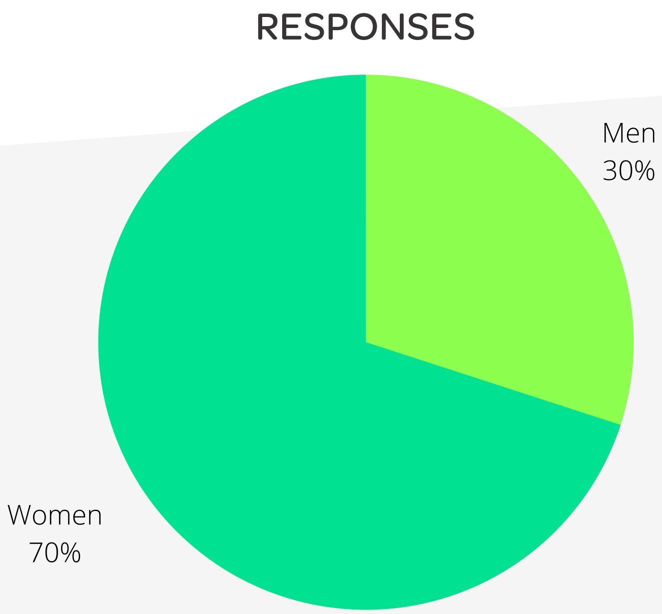
One third of respondents held a post-graduate qualification, men and women being equally and proportionally represented. Of this number, White respondents were under-represented in proportional terms. (Or White respondents were more likely to hold a graduate rather than post-graduate qualification).

Key findings:

- People view retirement as a time for leisure, hobbies and supporting younger family, but they don't know how much money they will be retiring on and largely expect their pension-drawing years to be lengthy.
- Family and friends are a significant source of financial information and advice.
- Men are more likely to be planning for the future with investment-related activity, with women more likely to be saving.
- Black respondents appeared to be most engaged and proactive about their financial futures, Asians the least.
- Younger people engage with online forums, while older groups seek IFA advice.

RETIREMENT ASPIRATIONS

Our research showed something of a disconnect between what people want to do with their retirement and the information they need to make it happen.



Respondents painted a picture of retirement full of pleasures; 85% wanted to travel, two thirds wanted to learn new skills or hobbies, and almost as many to simply enjoy being at home.

Over half wanted to support younger family members. The responses suggest that people connect retirement with a freedom to enjoy life.

AND YET, ALMOST THREE QUARTERS OF THOSE SURVEYED DID NOT KNOW HOW MUCH MONEY THEIR SAVINGS, PENSIONS AND INVESTMENT WOULD TRANSLATE INTO UPON RETIREMENT.

HALF OF RESPONDENTS EXPECTED TO COLLECT THEIR PENSION FOR OVER 20 YEARS.

FINANCIAL BEHAVIOURS

Men were more likely to hold a Stocks and Shares ISA (53% compared to 41% of women), more likely to be using money management apps – although the instance was low across the board (9% of men and 2% of women). And while 35% of men said they had an investment portfolio, only 12.5% of women did.

The picture by ethnicity was more complex. White respondents chose a mixture of methods of savings but were more likely to have a private pension and less likely to have cash compared to other groups. Black, Pakistani, and Indian respondents were more likely to rely on savings and property.

There appears to be an intuition gap in the types of information people think are most useful and the information they actually rely on.

Although two thirds of respondents cited an IFA as the most likely place to find suitable financial information and advice, only one third reported using one. This was marginally higher for black respondents – three quarters recommended an IFA compared to 39% that reported using one.

Family and friends are the main source of financial advice and education, cited by 40% of respondents, which means the quality of financial decisions depend on the level of sophistication and knowledge available in social groups. However, this response was largely given by white and Indian respondents. For other ethnicities, particularly Black respondents although family and friends were consulted, financial journals were cited as the most likely source. IFA's were moderately popular for most groups, but there was an age factor; they tended to come into play for older age groups, whereas younger groups were more likely to use online resources or forums.

In relation to advice from family and friends – although this was the most commonly reported source of advice used across all groups people, they were less likely to rate it as a source of information relevant to their lifestyle.

WE SEE THREE PRIMARY AREAS OF DISENGAGEMENT FROM MAINSTREAM PRODUCTS:

1. Narrow marketing of products;

2. A potential imbalance in spending on where people are seeking advice – the last place people are looking is television or radio, for example and;

3. A lack of relatable role models. Product use came from necessity and due to a lack of choice – for example, needing a mortgage to buy a house.

WHERE DO YOU GO TO FOR FINANCIAL ADVICE?

With respect to the gap in how that information is directly applied to an individual, and in the clarity and transparency of the information, there is an opportunity to support IFAs to better tailor advice, and to make them aware of the barriers that exist beyond knowledge – some of which are discussed below.

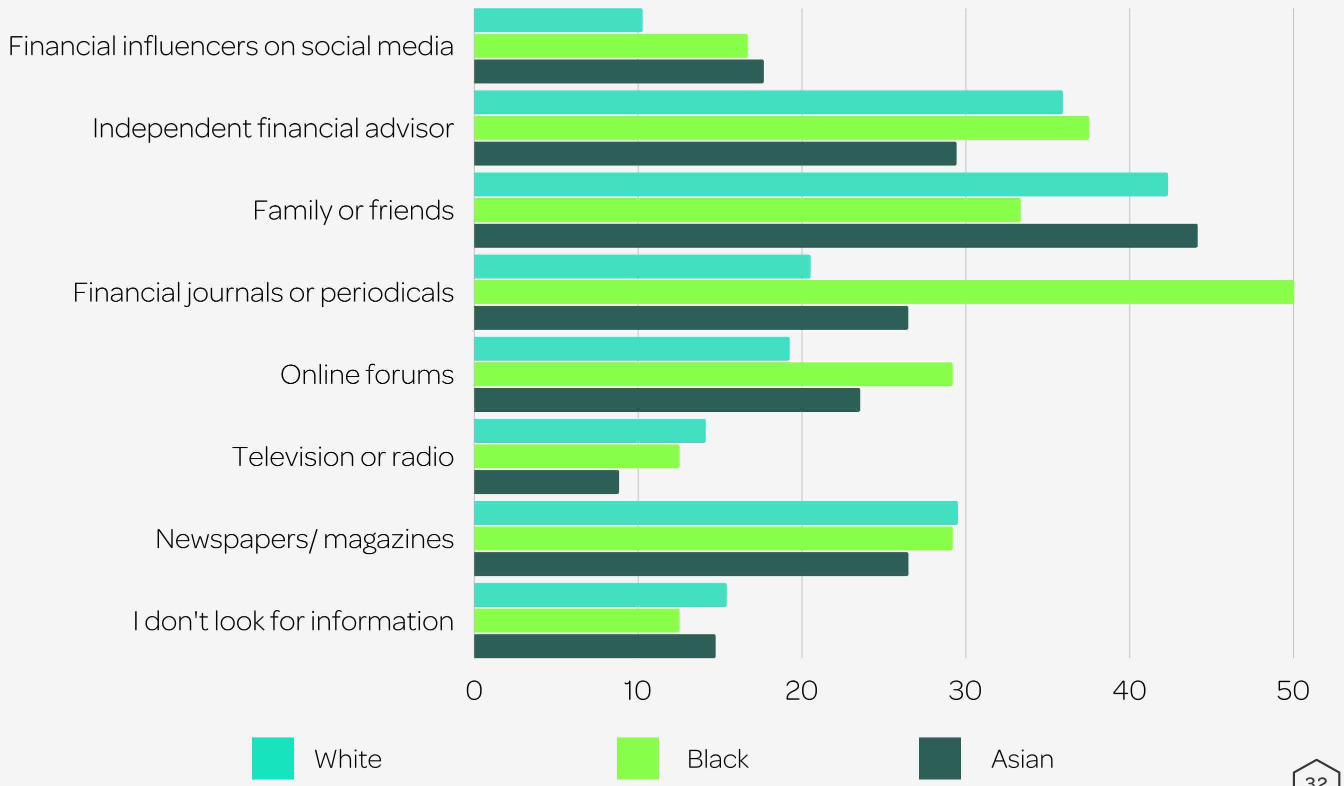
It was clear that online advice, forums or specific financial writing was valued over that from television or radio. Hardly any respondents reported getting financial advice or information from the television or radio; these mediums are much less used than online forums, specialist websites or online news, and this went across age groups, gender and ethnicity.

When asked about factors that would make them more likely to consider savings and investment products, respondents clustered around a few ideas – simplicity and clarity of advice, transparency on returns and the product.

It's unsurprising that there was clear age disaggregation when it came to thinking about security in retirement. Only younger respondents were confused about where to get information, but equally were more certain they had plenty of time to get financially secure. The cohort most worried about having enough to live on as a pensioner were the 36-45 age group - over 50%.

Cash ISAs are entry level savings products across all groups. As age increased, so did the likelihood of having a private pension, and the likelihood decreased of holding a cash ISA.

WHERE DO YOU GO FOR FINANCIAL ADVICE?



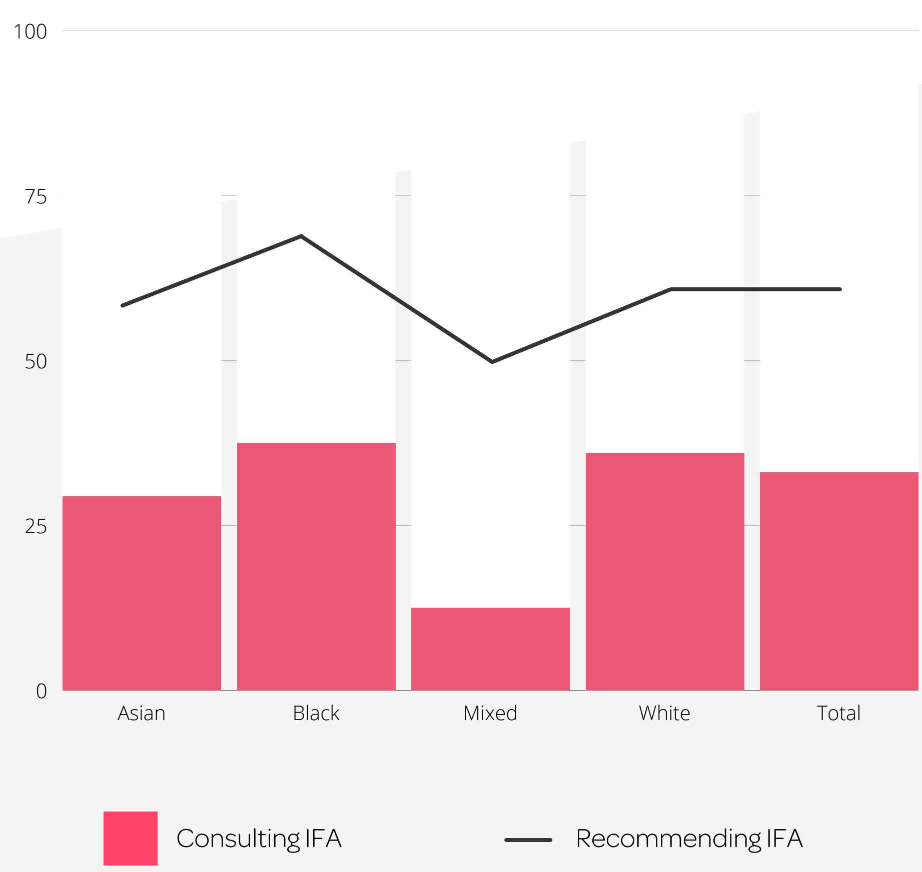
UNDERSTANDING OF FINANCE AND FINANCIAL PRODUCTS

Relatively few people in the survey said they were confused and unsure about where to get information on their retirement. But far higher numbers still reported being worried about having enough money to live on. This reinforced the finding that it's not a lack of education and information that is causing worry and fear.

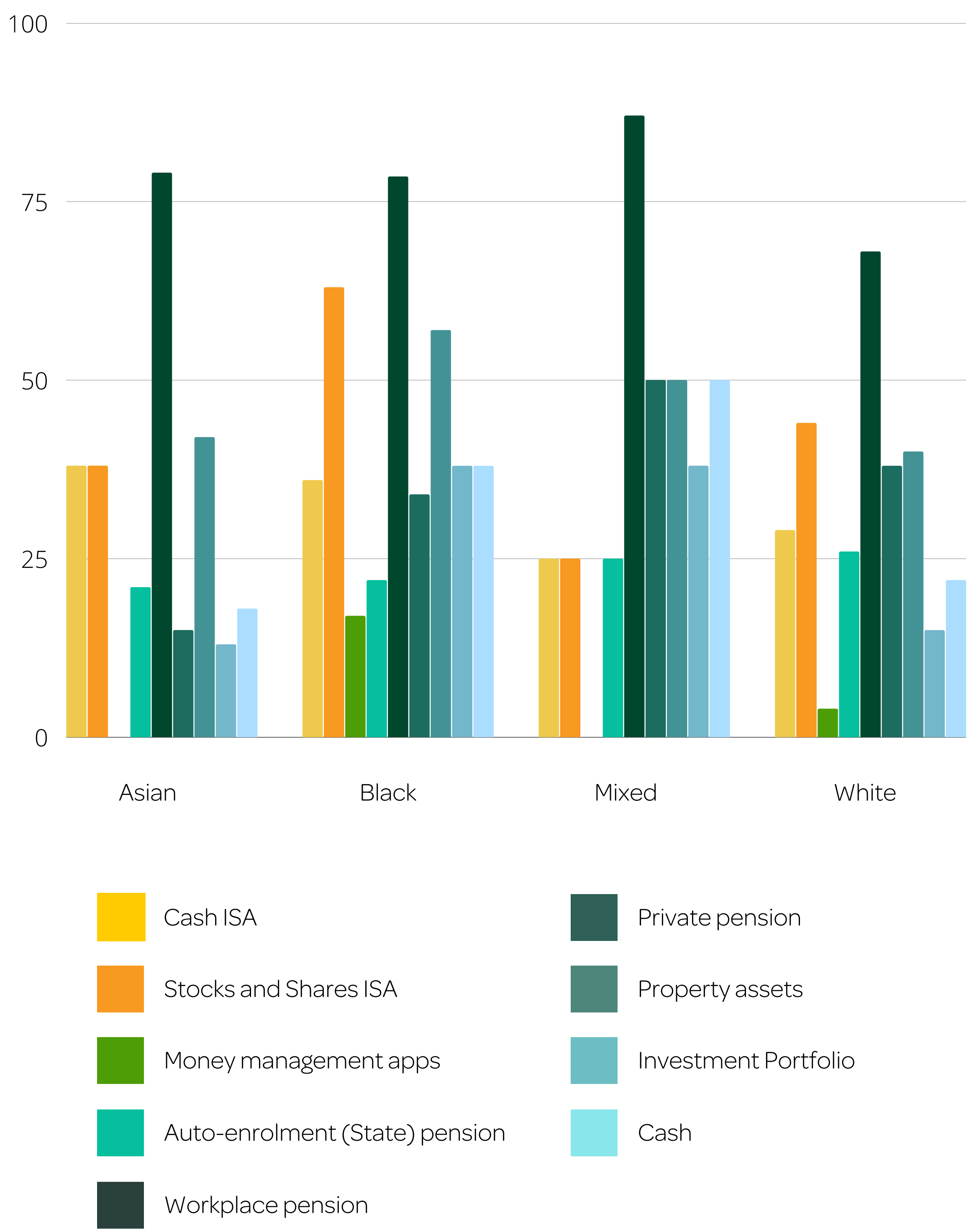
Very few respondents selected the option 'my family will make sure I'm okay', none of whom were Black.

The younger age groups were much more bullish about finances generally – the most satisfied with how they felt at present, lacking concern about where to find information or whether they would have enough to live on. Of course, the age group also largely did not have a mortgage and was less likely to have dependents.

RESPONDENTS MORE OFTEN RECOMMEND AN IFA FOR FINANCIAL ADVICE THAN USE AN IFA THEMSELVES



WAYS OF FINANCIAL PLANNING



CONFIDENCE ABOUT RETIREMENT INCOME