JANE WELSH SCHOLARSHIP ESSAY 2023

The investment and savings industry is not well known or understood by the general public.

How can the industry raise and enhance its profile amongst young people in order to encourage more to want to work in the industry?

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INTRODUCTION: A PENNY FOR YOUR THOUGHTS

A penny for your thoughts

The timeless adage, 'money makes the world go round' underscores the critical function financial instruments play in financing and allocating resources in the circular economy.

However, despite its significance in financing and wealth creation, the investment and savings industry often remain an elusive, inaccessible realm for a substantial proportion of the population, particularly young people.

As the industry looks to prepare for 'The Great [£5.5 trillion] Wealth Transfer' to younger generations, it is important for the recipient generation to be educated on managing or providing professional stewardship for this significant shift in economic power.

This report will explore the challenges that young people face in gaining awareness and an understanding of the investment and savings industry and present a roadmap for the industry to raise its profile among young people.

READING THE TEA LEAVES

Dissecting the issues in the Investment and Savings Industry

A fast and loose industry

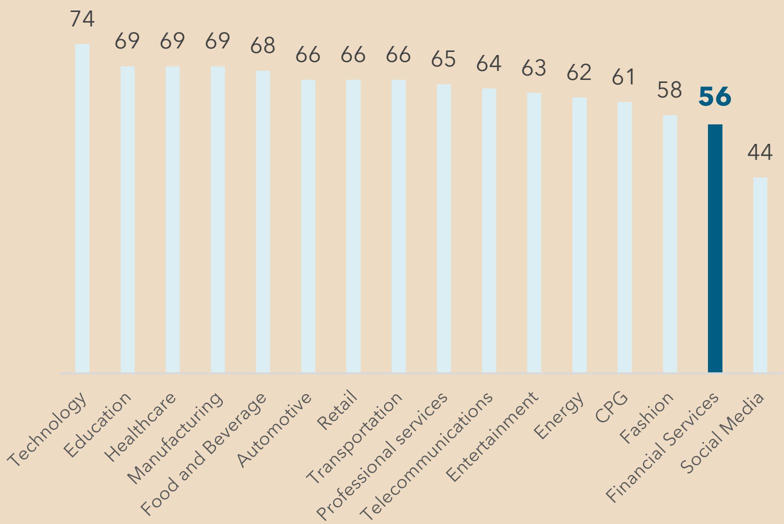
In the last decade, the investment and savings industry has grappled with a persistent trust deficit, stemming from historical financial crises and unethical practices that have impacted the real economy. The 2022 Edelman Trust Barometer ranks Financial Services as the 2nd lowest sector in public trust. The report also suggests that the industry has failed to shake off the perception of systemic inequality between different socioeconomic groups. [1]

Research from the FSCS further highlights the impact of information asymmetries on consumer confidence, revealing that public awareness of FSCS protection impacts the level of confidence consumers have when selecting and navigating various financial products.

While 83% of adults feel confident selecting and managing current accounts, only 44% and 38% of adults feel confident when selecting personal pensions and investments.

On the other hand, if consumers are aware of specific provisions that the FSCS provides with pensions or investments, consumer confidence increases by 15 percentage points. [2]

Financial Services, which includes the investment and savings industry, ranks as the 2nd least trusted industry



In essence, these findings underscore the critical need to build trust within the industry and the potential for the FSCS to play a leading role in redeeming this trust.

Reducing information asymmetries strengthens consumer's ability to judge the risk and return when selecting and managing financial products.

[1] Global Report Trust in Financial Services Sector. (2022). [online] p.21. Available at: https://www.edelman.com/sites/g/files/aatuss191/files/2022-03/2022%20Edelman%20Trust%20Barometer_Trust%20in%20Financial%20Services.pdf [Accessed Oct. 6 2023].

[2] Understanding of FSCS protection: identifying the gaps. (2022). [online] Financial Services Compensation Scheme. Available at: https://www.fscs.org.uk/globalassets/industry-resources/research/fscs-consumer-research-september-2022.pdf [Accessed 6 Oct. 2023].

An industry living in a bubble

A recent study from the FSCS of 2,000 adults found that nearly two-thirds (64%) of respondents had not sought regulated financial advice in the past five years.[3] A possible explanation for this was the perceived cost of obtaining regulated professional financial advice, with more than one in five respondents citing this as "too expensive", and instead opting for free guidance.

This suggests that young people view financial advice as a luxury for wealthy individuals. The significant gap in the utilisation of professional financial guidance, particularly among younger individuals raises questions about the industry's ability to effectively engage a younger generation.

Interestingly, the consensus amongst those aged 18 to 34 was that investing should not require individuals to obtain professional regulated financial advice. This was also evident with the sources that young people use as professional advice, with 57% of 18-24-year-olds confident that they could find good financial advice online and 44% of 18-24-year-olds confident that they could source reliable financial advice from social media platforms. This is significantly above the average of 44% and 20% respectively, in the general population.

The FCA also notes the rising influence of social media as a source for investment screening amongst young people in the Financial Lives 2022 Survey.

Young investors are increasingly using short-term competition and hype found on social media platforms as the main investment criteria, rather than long-term investment horizons and due diligence.[4]

This is despite young people featuring on the lowest scale for financial resilience, which indicates that they were in or are at risk of financial difficulty.[4]

The combination of non-rational investing coupled with low financial resilience illustrates the need for comprehensive education on investing practices to mitigate the risks associated with impulsive decision-making.

The investment and savings industry must also understand the growing importance of Environmental, Social, and Governance (ESG) commitments amongst younger workers. A survey conducted by KPMG found that 51% of 18-24 years olds office workers wanted their employers to demonstrate an alignment with ESG principles and 33% had rejected job offers due to ESG commitments made by potential employers being subpar.[5]

An integrated-ESG corporate culture is amongst the growing list demands that the investment and savings industry need to prioritise to attract younger people.

[3] Attitudes towards Financial Advice. (2023). [online] Financial Services Compensation Scheme. Available at: https://www.fscs.org.uk/globalassets/industry-resources/research/fscs-consumer-research-attitudes-towards-financial-advice-jan-2023.pdf [Accessed 7 Oct. 2023].
[4] Financial Lives 2022. (2023). [online] Financial Conduct Authority. Available at: https://www.fca.org.uk/publication/financial-lives/financial-lives-survey-2022-key-findings.pdf [Accessed 8 Oct. 2023].
[5] KPMG. (2023). Climate quitting - younger workers voting with their feet on employer's ESG commitments - KPMG United Kingdom. [online] Available at: https://kpmg.com/uk/en/home/media/press-releases/2023/01/climate-quitting-younger-workers-voting-esg.html#:~:text=New%20research%20released%20by%20KPMG [Accessed 7 Oct. 2023].

An industry not casting a wide net

The narrow, traditional recruiting pathways in the investment and savings industry close off many opportunities for young people looking to transition into the industry. A Jobrapido survey of Millennials (18-34 years olds) found that 62% aspire to change careers, with half of UK employees willing to pursue some form of apprenticeship to make this transition.[6] This is despite the fact that between 2000 and 2018, only 9.1% of people changed roles, with 90.9% opting to remain in their current roles, according to data from Office for National Statistics.[7] Younger people also express the greatest desire to make a career change, with 68% of 18- to 24-year-olds wanting to shift to a new career.[8]

The industry's inability to maximise the attention of young people is multifaceted. Firstly, there is a perception issue: young people view the sector as conservative and traditional, lacking technological innovation or modern digital solutions. Secondly, awareness of career opportunities in the field is low amongst young people from a non-traditional background.

Finally, there is a structural problem with young professionals transitioning into the industry lacking the skills that vacancies for roles within the industry describe as 'essential'.

Generally, employers are reluctant to recruit young people, favouring candidates with prior experience. This stems from the perception that young people are risky hires with low productive capacity and incur high training costs.[9]

This is compounded by the fact that once trained, young people have the freedom and mobility to join other companies, allowing competing firms to hire highly-skilled employees without taken on the cost of training.

In summary, recruiting young people into the investment and savings industry has a myriad of challenges driven by perception issues, technological challenges, lack of awareness and skills deficits. The industry must address these issues individually to ensure its long-term competitiveness in the economy and to secure a future pipeline of diverse talent.

"The challenge of recruiting young people into the investment savings industry is amplified by perception issues, technological challenges, lack of awareness and skills deficits."

[6] Jobrapido (2019). Jobrapido research discovers: nearly two thirds of UK workforce want to change their career path. [online] Jobrapido Corporate Blog. Available at: https://blog.corporate.jobrapido.com/2019/09/27/jobrapido-research-discovers-nearly-two-thirds-of-uk-workforce-want-to-change-their-career-path/ [Accessed 8 Oct. 2023].

[7] Office for National Statistics. (2019). Analysis of job changers and stayers - Office for National Statistics. [online] Available at: https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/compendium/economicreview/april2019/analysisofjobchangersandstayers [Accessed 6 Oct. 2023].

[8] Careersindepth. (2020). The Current State of Career Change in the UK. [online] Available at: https://www.careersindepth.com/post/the-current-state-of-career-change-in-the-uk [Accessed 8 Oct. 2023].

[9] RECRUITING YOUNG PEOPLE FACING DISADVANTAGE - An evidence review . (2022). [online] CIPD. Available at: https://www.cipd.org/globalassets/media/knowledge/knowledge-hub/evidence-reviews/recruiting-disadvantaged-youth-practice-summary-web-2_tcm18-107324.pdf [Accessed 8 Oct. 2023].

TURNING OVER A NEW LEAF

Raising the Investment and Savings industry's profile

Knowledge is power

The foundation for enhancing the profile of the investment and savings industry is to establish strong financial literacy and education habits in young people. Studies have shown that strong financial literacy is associated with financial well-being and inclusion, particularly for women, low-income groups, ethnic minorities and people living in regions outside of major financial hubs.[10] Tackling low financial literacy rates requires the adoption of a nuanced approach to closing the geographical gap and knowledge gap whilst also acknowledging socioeconomic pressures on young individuals. Increasing financial knowledge amongst young can be achieved by:

- **Early outreach with young people in primary and secondary education** to teach them about the need to save, invest and the power of compounding over time.
- **Using technology to drive interest in investing.** Classroom workshops which feature a competitive online-based investment simulation game can drive interest in investing by mimicking market conditions and due diligence processes without entailing the potential downside risk of investing real money. This online simulation game should incorporate a range of new and emerging asset classes, such as cryptocurrencies, to engage younger audiences.
- **Offering insight day workshops and virtual reality office tours**, to simulate the day-to-day experiences of professionals operating in the investment and savings industry and persuade young people to consider the industry as a career.
- **Introducing Micro-Investing apps** to encourage more young people to save over a long investment horizon. This should be rolled out in conjunction with educational content on investment principles. Investment managers should provide incentives for investing over a long-term horizon, such as a reduced fees or a matched amount guarantee.
- **Leveraging AI to produce personalised investment advice** for young people through custom robot-advisors or chatbots.
- **Collaborating with educational providers to rollout a formal beginner course for investing.** Introduce a new CISI L1 Qualification or app-based course which is fully funded for secondary school students and teaches them about financial literacy, ethical investing and the various career paths one can follow within the industry.
- **Leveraging social media and digital platforms** to circulate educational content, using recognisable public or social influencers to achieve the dual goal of making investing more entertaining and approachable whilst also dispelling myths or innacurate investment advice.

[10] Lusardi, A. and Messy, F.-A. (2023). The importance of financial literacy and its impact on financial wellbeing. Journal of Financial Literacy and Wellbeing, [online] 1(1), pp.1–11. doi:https://doi.org/10.1017/flw.2023.8.].

Don't put all your eggs all in one basket

The concept of diversification extends beyond asset class allocation and reducing systematic risk. Diversifying talent outreach through the provision of alternative pathways will be essential to recruit young people beyond the traditional university graduate. To date, much work has been focussed on implementing diversity training, mentorship programs and inclusive hiring practices to foster a sense of community and support for individuals facing similar challenges. The industry still needs to attract young people who are from non-traditional backgrounds, focussing on the transferable skills that could be accretive in the investment and savings industry. This could be achieved by:

- **Developing a new early career opportunity programme** which is focused on reaching out to young people in difficult social-circumstances such as those not in education, employment or training (NEET), ex-offenders or those in alternative labour-intensive and third sector industries or apprenticeships.

- Using automated diverse candidate (cross-sector) **outreach and sourcing techniques** to search talent databases.

- **Developing a new mid-career change programme** which comprises of a 12-week bootcamp for young people aged 30 and under to upskill and recruit into the industry. The programme should aim to maximise the variation of entry pathways for candidates from different industries. The programme should be divided into a public sector stream, third sector stream and private sector stream. The key areas of recruitment focus should be on attracting talent from the Military, Sciences, Arts and Creative; Retail and Customer service and Non-profit sectors.

- **Leveraging social media** to engage young people and show the various pathways to enter the industry.

- **Using technology to drive recruitment and retention of young people**. Centralised AI Talent Pools could match candidates with available roles focussing specifically on transferable skills, not experience.

- **Introducing online courses, workshops and mentorship programmes** for people from underrepresented sectors looking to recruit into industry. This should be supplemented with a chatbot or FAQ's page which provides answers to custom recruitment questions.

- **Setting up Investment and Savings Industry Online CV and Cover Letter builders** for individuals who are seeking to recruit into the industry.

Put your cards on the table

The investment and savings industry needs to publicly engage with the value young people place on ethical practices, transparency and responsible financial management.

The industry needs to continue to build on the progress made since the last financial crisis and disseminate a notion of integrity to attract younger people who are increasingly socially and ethically minded. This can be achieved by:

- **Setting up Peer-to-peer investment platforms** to allow young people to co-invest in their community and participate in the shared benefits from social impact investing.
- **Creating young shadow advisory boards,** reporting directly to company boards, from a selection of Analysts and Associates which focus on young talent outreach.
- **Using Open APIs and sharing data across different industry investment platforms** to allow consumers to easily access, compare and share data on investments and fees, with the ultimate aim of reducing information asymmetries.
- **Showcasing ethical and transparent** organisational practices through case studies, newspapers and online blogs widely circulated amongst young people.
- **Setting up regulated and moderated** investment social networks.
- **Strengthening corporate governance.** Companies should re-examine company purpose, core values and principles to ensure they effectively align with the views of young people.
- **Monitoring, benchmarking and evaluating corporate activity on ethics and transparency** through the use of KPIs and ethical and social conduct surveys from all stakeholders, including young people.

CONCLUSION: THE WHOLE IS GREATER THAN THE SUM OF ITS PARTS

The whole is greater than the sum of its parts

The investment and savings industry has a unique opportunity to address the perception, education and recruitment gaps preventing young people from joining.

Tackling these systemic issues effectively requires the industry to take a holistic approach to addressing these intersectional dilemmas. This includes:

1. **Engagement with education providers and government** to embed financial literacy as part of the curriculum.

2. **Stakeholder engagement and participation** to address legacy concerns about the industries social and ethical practices.

3. **Development and monitoring of the KPIs** for newly developed programmes seeking to reach specific communities of young people.

4. **Wider industry collaboration** to promote careers within the industry, formulate new strategies and ensure alignment with emerging market demands from young people.

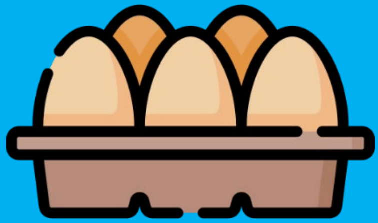
By engaging with stakeholders, the industry can more effectively address these various interconnected barriers to create a more attractive industry for more young people to pursue.

APPENDIX

Appendix 1: Summary of recommendations

1 Knowledge is **Power**

Early outreach with young people in primary and secondary education, Using technology to drive interest in investing and leveraging AI to produce personalised investment advice.



2 Don’t put all your eggs in **one basket**

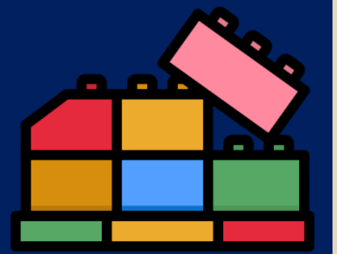
Developing new early and mid-career opportunity programmes, leveraging social media and using technology to drive recruitment and retention of young people.

3 Put your cards **on the table**

Showcasing ethical and transparent practices through strong corporate governance, Open APIs or investment platforms and shadow boards.

4 The whole is greater than the **sum of its parts**

Engagement with education providers and government and wider stakeholders in industry.



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