

Gambling on future financial security

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In Britain today some 16 million adults choose to dream of becoming a millionaire over putting money aside for the future. Latest consumer research from MINTEL finds that a surprising one in three adults (33%), or approximately 16 million people, prefer to spend Â£5 a week on the Lottery hoping to become a millionaire rather than depositing it in a high interest savings account.

"As the finance industry strives to improve its reputation and ensure that customers are adequately protected, some people still seem more willing to gamble than to steadily build up a nest egg of cash savings. So, it seems, that a significant number of people still lack confidence in the financial services industry. This is especially worrying as many are now having to take greater responsibility for their current and in particular future financial health," comments Paul Davies, Senior Finance Analyst at MINTEL.

The most surprising result is the significant difference between men's and women's preferences for spending Â£5 on the lottery or saving it in a high interest deposit account. By a significant margin (13 percentage points) men (40%) are more likely to play the lottery compared with women (27%), who are far more likely to be saving.

"Today, many women have now taken on the responsibility of managing day-to-day finance and have taken charge of their own household budgets. This means that when it comes to the more everyday financial products, such as a savings accounts, women are more likely than men to have their feet firmly on the ground," explains Paul Davies.

Complaints still run high

Today almost one in five (17%) British adults (8 million aged 18+) have formally complained about being mis-sold a product or service, while a further 7% (over 3 million) still intend to formally complain. Overall, more than 3 million adults (7%) have received compensation for being mis-sold a financial product or service.

What is more, fewer than one in five British adults have trust and confidence that they will be sold a suitable product 'all the time' by financial services providers, and only just over one in five (21%) believe that they are given good advice on financial matters 'all of the time' by financial services providers.

"The image of the industry has clearly been tarnished by the wave of mis-selling scandals that have hit the headlines in recent years. Many people clearly still need reassurance when it comes to financial advice from providers and the industry needs to continue to work on rebuilding confidence amongst a significant proportion of the population," comments Paul Davies.

The cost of self-regulation and compliance

During the past five years the UK financial services industry has been engulfed in trying to withstand the heat of much more intense and direct regulatory interference and control as days of industry self-regulation rapidly disappear. But this kind of regulation comes at a cost.

Recent industry estimates reveal that the costs of regulation exceed early projections. In mortgages the cost to lenders is estimated at Â£180 million, almost double the original estimate. The cost of adding the menu option to the sales process is estimated by the FSA at Â£41 million compared to an original estimate of Â£20 million.

"For consumers it is unlikely that there will be much reaction to all the changes following the general insurance hand-over in January 2005 to complete the current phase of regulatory re-structuring. Where consumers may begin to feel the effects of the new regime is in the extra time needed to understand and complete the necessary paperwork, particularly in mortgage applications. Indeed, too much information to absorb is likely to disengage them as will slow responses. Consumers are also expected to pick up the bill for much of the increased regulatory cost, although it will not be obvious," comments Paul Davies.

But in order to stay on top of these new regulations, compliance has now become an essential function of modern financial services. Industry estimates suggest that there are now some 40,000 compliance jobs in the UK - with around 5% of UK financial services recruitment made up of compliance personnel. A wide range of service businesses have grown on the back of supplying compliance and other back-office functions to providers and IFAs, with outsourcing used to improve business efficiencies. Management consultants have taken a prime role in helping to implement regulation and will be heavily involved in Treating Customers Fairly (TCF) programmes.

"More regulation is necessary to protect consumers and improve the functioning of financial markets, as the lack of

consumer understanding does not make for an efficient, competitive, marketplace. Customers are better informed than in the past but will always be vulnerable as financial services are complicated," concludes Paul Davies.

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