
*Final Draft, January 2003*

**Dr Brendan Burchell**

Faculty of Social and Political Sciences  
University of Cambridge  
Free School Lane  
Cambridge  
CB2 3RQ, UK  

bb101@cam.ac.uk

1. Introduction

This report documents research conducted to investigate the attitudes and behaviours individuals have towards their personal finances. The research came out of observations by Egg (a financial services company) that some individuals have a puzzling and seemingly irrational orientation towards administering their personal finances, leading to poor management of their personal finances at considerable cost to those individuals. This research was commissioned by Egg to investigate this phenomenon, and the research was conducted between July and September of 2002.

This research set out to identify and understand a personality syndrome that prevented individuals from dealing effectively with their personal finances. Understanding such a condition at a social and psychological level proved a challenge, and required a number of stages to the research before a satisfactory understanding of the phenomenon was achieved. The research consisted of five distinct phases:

1. A critical review of the Economic Psychology literature on attitudes and management of personal finances.
2. A pilot telephone survey of 300 individuals to investigate their attitudes and behaviours regarding personal finance.
3 A focus group discussion of attitudes and behaviours towards personal finance.

4 In-depth interviews of 10 individuals identified as having aversive attitudes towards financial behaviours from the telephone survey.

5 A telephone survey of 1000 individuals (as part of an omnibus survey).

As the research progressed through these phases a clearer pattern emerged of the nature of this disposition to personal finance. These stages to the research will be described sequentially before considering, in some detail, the definition of this syndrome and its causes.

This research, culminating in the identification of a section of the population identified as “financialphobes” has made what seemed to be a mysterious and irrational set of behaviours by some consumers of financial services an explicable mechanism that enables them to cope with and the policy implications for the practices and the regulation of the financial services industry.

2. A Critical Review of the Literature

A detailed and critical review of the literature in economic psychology was undertaken to assimilate the existing research on attitudes towards personal finance, and to suggest directions for the research. Over 50 academic articles were identified and read. No previous research was identified that directly addressed the issue of dysfunctional orientations that individuals might have with their personal finances; that such an important topic should be so under-researched was rather surprising. But the literature review did suggest several theoretical orientations that would give an initial direction to the empirical research.

As a result of this review of the literature, three different ways of conceptualising dysfunctional orientations towards personal finance were considered:

Hypothesis 1. The first hypothesis is that this condition might be a similar phenomenon to dyslexia. This condition is associated with very
specific deficiencies in reading and writing in otherwise intelligent and competent children and adults. There is also a mathematical equivalent of this, Dyscalculia, a specific deficit that some individuals have with arithmetic and mathematics. So there may be another phenomenon, financial dyslexia, which, like the other two known forms of dyslexia, is quite specific in its effect.

Hypothesis 2. Apparently irrational financial behaviour may be caused by cognitive shortcomings in the way in which individuals process financial behaviour. Social and Economic Psychology increasingly draw upon a metaphor of individuals as information-processors. But the information that we have to deal with in our everyday lives is too complex to calculate fully, so we need to take short-cuts to avoid information-overload. Shortcuts such as relying on simple stereotypes can make cognition about our social lives manageable, but will, in some cases, lead to biases and errors in our judgements.

Hypothesis 3. Finally, seemingly irrational financial behaviour might be better understood as having an emotional cause. If an individual experiences negative emotions when thinking about and dealing with financial services, the individual may attempt to cope with this by avoiding thinking about personal finances, leading to sub-optimal behaviour.

These hypotheses are described in more depth in the critical review of the literature (Burchell, 2002a). It is important to note that these were, at this stage, simply untested hypotheses to be explored in the fieldwork.

3. The Pilot Telephone Survey

300 telephone interviews were conducted in three areas; Cambridge, Northampton and North London. Fifty four percent of the respondents were female, 46 percent were male. All of them were aged 18 or over.
The full description of the results of the pilot telephone survey are given in Burchell, 2002(b). The important conclusions can be summarised in the following points

1. The majority of respondents to this questionnaire expressed positive attitudes to their personal finance.

2. There was, however, a small minority of respondents who had an emotional aversion to dealing with their personal finance. Up to 10 percent of respondents expressed mildly negative states, such as boredom, when dealing with their finances. More extreme negative emotional states, such as anxiety, guilt or fear were reported by up to five percent of individuals. Thus initial estimates of the prevalence of the negative emotional orientation towards personal finance suggest that it might describe about one in twenty individuals.

3. Three underlying dimensions were identified to measure individual levels of orientation to money on dimensions of (i) knowledge, (ii) importance and (iii) emotion. These formed psychometrically sound scales which will be useful for measuring and understanding individuals in future research.

4. Of these three sub-scales, the emotional one seems to be the most important in that it was the best predictor of other financial behaviours.

The pilot telephone survey was not intended to give representative results, nor was the sample large enough to give accurate population estimates of the prevalence of negative orientations to personal finance. However, its main purpose was to provide some preliminary findings but, more importantly, to identify individuals that scored highly on the scales that identified those with negative orientations towards personal finance, to be re-interviewed in more depth in subsequent stages of the research.
4. Focus Groups.

The focus group was held in a North London hotel. All 17 of the 100 interviewees in the North London area who had agreed that they could be re-contacted for the focus group were invited; five attended the focus group that lasted for over two and a half hours.

The analysis of the conversation from the focus group revealed many interesting pointers for the research.

1. An individual’s initial presentation as having a problematic relationship with their personal finance is often misleading. In some cases individuals enjoy presenting themselves as being “happy-go-lucky” in their financial behaviour, but further probing reveals that they are, in fact, quite astute investors with a detailed knowledge of interest rates, risk, etc.

2. It is often difficult to keep respondents focused on the management of personal finance. They are much more attracted to discussing consumer behaviour, and often the facilitators of the focus group had to re-focus the conversation on consumer behaviour rather than examples of reckless or impulsive shopping.

3. None of the participants who actually attended the focus group scored very highly on the “negative emotions to finance” scale. Those individuals were both less likely to agree to attend the focus groups, and also less likely to attend if they did consent. This result is, with the benefit of hindsight, not at all surprising, as any category of people whose defining characteristic is to feel uncomfortable when thinking about money are highly likely to avoid situations which force them to think about money. It is also likely that the pilot telephone survey, being described to respondents explicitly as a survey about personal finance, would have underestimated the prevalence of individuals with negative emotional responses to personal finance, as these individuals would have been more likely to refuse to take part in such a survey. This incidental finding is important in understanding why this group has been ignored and remained unacknowledged in the Economic Psychology literature.
5. Individual, in-depth interviews
The in-depth interviews gave the first real opportunity to test the three hypotheses about dysfunctional dispositions towards personal finance. Ten of the high scorers on the “negative emotions to finance” scale from the pilot telephone interviews were re-contacted for a more detailed interview. These interviews lasted between 30 and 90 minutes each and were tape-recorded for later analysis. The six of the respondents were female, four male. Four were in their 20s, two in their 30s, two in their 40s, one in his 50s and one in her 60s. Six of these detailed interviews were conducted by the principle researcher (Dr Burchell), and a qualified counselling psychologist conducted the other four.

These interviews ranged generally over the respondents’ attitudes, behaviours and emotions to personal financial, and explored their childhoods, significant events in their past, and their current financial position and behaviours. Rather than following a rigid agenda, the respondents were given the freedom to discuss those aspects of their lives that they thought were most relevant to their current orientation towards personal finance. These interviews provided very rich material to enhance our understanding of the various phenomena that might be associated with a negative affective orientation towards personal finance. There were a few themes common to all of the interviews. For instance, none of these interviewees had uncontrollable spending patterns. If anything, they tended to be a relatively cautious group regarding spending.

These interviews provided better grounded hypotheses as to the nature of and causes of negative emotional dispositions to personal finance. Each of the respondents was unique, but there were some common features to their case histories, and deep-seated emotional antagonism to personal finance was a recurring theme. The ideas generated from the analyses of these interviews were used to generate the questions to be used in the final stage of the interviews, the omnibus survey of 1,000 respondents. The results of
these in-depth interviews will be revisited later in this report to interpret the findings of the omnibus survey.

6. The Omnibus survey
A survey of over 1,000 adults, representative of the British population, was conducted to assess the prevalence and correlates of “financial aversion”, and to obtain more accurate estimates of the nature of the phenomenon.
The telephone omnibus survey was conducted by BMRB over the weekend of the 6th-9th September 2002. The questions included to develop the scales of emotional orientation towards personal finance are shown in Box 1.

The operationalisation of a “Financial Aversion” scale.
These five questionnaire items were investigated using standard psychometric techniques and found to form a coherent scale of financial aversion.

How true or untrue are the following statements about you and your thoughts? Please respond with very true, mostly true, mostly untrue or completely untrue.

1. I find monitoring my bank or credit card accounts very boring.
2. I prefer not to even think about the state of my personal finances.
3. Thinking about my personal finances can make me feel guilty.
4. There's little point in saving money and being careful with it, because you could lose it all through no fault of your own.
5. Thinking about my personal finances can make me feel anxious.

This items, when added together, formed a normal distribution shown in Figure 1. Most people are in the middle-range of this scale, without strong feelings for or against personal finance. A small number of people are at each extreme of the scale, “financialphiles” and “financialphobes”. At the extreme, there were 11 individuals out of the sample of 1013 (one percent) who scored the most extreme score possible on the scale of 5, showing
that they rated each of these five items as “Very True”. At the other extreme, there were 19 (1.9 percent) individuals who rated these five items as each “completely untrue”.

Individuals who displayed some of the “symptoms” of financial avoidance were very prevalent. For instance, 51 percent of the sample rated at least one of them as “very true”, and 84 percent of the sample rated at least one of these five statements as either “very true” or “mostly true”. So, by these criteria, at least half of the population show some symptoms of financial avoidance.

This scale can either be used as a continuum (Like IQ) or by considering the top, say, 20 percent as being the “Financialphobes” and the other 80 percent as the “normals” (like we do with many abnormal states, even though they are, actually, on a continuum, like dyslexia and depression). Twenty percent is the conventional (but arbitrary) cut-off for the extreme scorers on such a psychological scale. This would correspond to scores of between 5 and 10 (inclusive). A useful way in which the nature of financial avoidance can be investigated is to look at the characteristics of individuals with high scores, the financialphobes, on this scale.
Figure 1. The full range of the "financial avoidance" scale.

For most purposes one will get similar results regardless of whether the scale is treated as a continuum or used simply to divide the population into two groups. But there will be occasional differences. For instance, females are more likely to be at both ends of this spectrum, so would show up with a greater percentage in the “FP” group, but their average score is not different.

Characteristics of the Financialphobes.

The omnibus survey provides the opportunity to examine the prevalence of “financial aversives” in various sub-populations. Although this financial aversives are found across all classes, ages and regions, suggesting that no group of individuals is immune to this psycho-social phenomenon, there are some marked patterns in its prevalence. Using the 20 percent cut-off at the top of the scale, we can see these effects most clearly.

Social Class

There is a linear gradient with class, such that 29 percent of social classes D and E are classified as Financialphobes. But even in the highest social
classes (A and B) there are still 11 percent of individuals classed as financial phobes.

Social class is such an all-encompassing classification that it is difficult to be certain which particular features of social class were important in causing this difference. The in-depth interviews suggested that education, and a confidence in dealing with complex documents and numerical material, might be very important. The higher incomes might also have played a part, but without separate measures of income and education it is difficult to unravel the mechanisms of this class effect. But the fact that there is still a significant proportion of financialphobes even in the highest social class suggests that the condition is caused by psychological or social factors that no group in society is immune from.

Age.

There is a clear linear fall in the proportion of financialphobes with increasing age. Over 30 percent of the youngest age group, 16-24, are in this group. The level remains high (26 percent) in the 25-34 age group, but falls steadily to a rate of just 11 percent in the 65+ cohort. Again, it is not clear from this research what causes this marked age effect. It could be a life-cycle phenomenon, such that as one gets older, one “grows out” of financial phobia. Or, more worryingly, this could be the sign of a generational change, such that the more recently born cohorts are going to continue with higher levels of financial phobia through their middle ages and into their retirements. If this is the case, this will lead to significantly increased levels of financial phobia in the future.

Sex.

The rate of financialphobes is slightly higher amongst women (23 percent) than amongst men (18 percent). But women are also more likely to score at the other extreme of the scale, as financialphiles. So the differences between the sexes is better characterised by describing women as being slightly more extreme in their scores, at both ends of the scale, than men. This may reflect a more general difference between the emotional
responses of the sexes, with females being more expressive and extreme, while men tend to be flatter and more muted.

**Behavioural correlates of financial aversion.**

The omnibus survey asked individuals a number of questions about their routine financial behaviours, such as dealing with their bank statements. This permitted the identification of some of the behavioural symptoms of financial phobia, and gives further evidence of syndrome of aversion to personal finances.

**Opening of bank statements.**

The survey suggests that about 80 percent of us open our bank statements as soon as they arrive, a further 10 percent open them within a week, and about three percent of us leave them for our partners to open. But what of the small number of individuals who do none of these, and presumably put themselves at risk of remaining ignorant of the state of their finances?

Four percent of financialphobes take between a week and a month to open their statements, compared to only one percent of the rest of the population. Financialphobes are nearly twice as likely as the rest of the population to hand over all responsibility for dealing with the bank or credit card statements to their partners. And the most extreme behaviour, never opening statements, is almost non-existent in the rest of the population (below one percent) but is the norm for three percent of financialphobes.

**Checking of balances**

The two types also differ in terms of what they do with statements once they have opened them. Only 11 percent of financialphobes reconcile them immediately, compared to 20 percent of the rest of the population. At the other end of the scale ten percent of financialphobes do not even
bother to check the balance of the account, compared to only four percent of the rest of the sample.

Knowledge of balances
Interestingly, there is no difference in the regularity with which the two types check the balance of their accounts, but there is a difference in the extent to which they know how much they have in their account on a week-by-week basis. Twenty-nine percent of financialphobes report not knowing approximately what their balance is, compared to only 18 percent of the rest.

Emotional Reactions to Dealing with personal finances
The behavioural symptoms of financialphobia were often combined with emotional reactions, ranging from the mild, such as feeling irksome, to very severe reactions, such as feeling physically ill or immobilised.

Respondents were asked about a range of feelings and emotions they experienced at the prospect of dealing with financial matters. Most of these showed very clear differences between the financialphobes and the rest, and the differences are particularly marked for the most extreme reactions such as dizzy, physically ill and immobilised, where the levels were up to five times higher among the financial phobes than amongst others. Surprisingly, the financialphobes also reported slightly higher levels of some positive emotions, such as excited. This suggests that they are more emotionally volatile concerning finances than the others; the only state that they were less likely to report was feeling no emotion whatsoever.
Table 1. Emotional Reactions to Dealing With Personal Finance for Financial Phobes and the rest of the sample.

<table>
<thead>
<tr>
<th>Reaction</th>
<th>Percentage financialphobes</th>
<th>Percentage, rest of the sample.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relieved</td>
<td>67</td>
<td>51</td>
</tr>
<tr>
<td>Apprehensive</td>
<td>54</td>
<td>33</td>
</tr>
<tr>
<td>Anxious (heart racing)</td>
<td>45</td>
<td>22</td>
</tr>
<tr>
<td>Disinterested</td>
<td>38</td>
<td>23</td>
</tr>
<tr>
<td>Disenchanted</td>
<td>33</td>
<td>20</td>
</tr>
<tr>
<td>Excited</td>
<td>26</td>
<td>17</td>
</tr>
<tr>
<td>Enthusiastic</td>
<td>25</td>
<td>22</td>
</tr>
<tr>
<td>Irksome</td>
<td>21</td>
<td>10</td>
</tr>
<tr>
<td>No Emotion Whatsoever</td>
<td>21</td>
<td>33</td>
</tr>
<tr>
<td>Immobilised</td>
<td>15</td>
<td>3</td>
</tr>
<tr>
<td>Physically ill</td>
<td>12</td>
<td>5</td>
</tr>
<tr>
<td>Dizzy</td>
<td>11</td>
<td>5</td>
</tr>
</tbody>
</table>

It is important to note the severity of some of these emotional states. They will certainly reduce the quality of life of the sufferers, and they are also likely to make it very difficult for them to deal effectively with their financial affairs.

In order to get an understanding of the causes of this syndrome, we can turn back to the richer and “thicker” qualitative material from the in-depth interviews with the high levels of emotional aversion to personal finance. These interviews uncovered some recurrent patterns that offer tentative hypotheses as to why some individuals are or have become financialphobes. Three theories are presented below, the first being
supported by evidence from several respondents and from the Omnibus survey, the second and third being more speculative.

**Theory A. Frustrated Prudence.**

A number of individuals emphasised that their parents had modelled financial prudence and caution to them. Other, older respondents said that they had observed poverty and scarcity first-hand and had started their adult lives with good intentions to plan and save, and believing that it was within their own control to be able to provide financial stability for themselves and their families. But then, through some external event outside of their control, they had lost or been cheated out of some of their hard-earned or carefully managed savings.

Derek (56) came from working-class parents, but had worked as a professional for his career before taking early retirement in his fifties. His parents-in-law owned their own house, and much of his financial planning centered around the capital in that house that would be available for his own children’s deposits towards their first homes. Then his father-in-law died, and his mother-in-law started to develop senile dementure, needing residential nursing care. As her house was then valued at £60,000 the Social Services insisted that she sell it to pay for the nursing care. When she died three years later only £15,000 of the capital was left, although the house would then have been worth over £100,000. Derek felt that a lifetime of careful financial management had ended with him being over £85,000 worse off than he should have been.

Peter (39) worked as a skilled craftsman. When he had bought his current house, the estate agent (linked to a building society) had offered free financial advice and, without any mention of risk, had provided an endowment mortgage promising lower monthly payments and a large bonus on maturity. A few months before the interview he had been informed that the endowment was unlikely to mature with
enough money to clear his mortgage. His house was his only investment, and he felt that he had been betrayed and what he believed to be a safe investment was now worrying him.

Millie (61) came from a very poor background, and was determined that she would be careful with money. Along with her husband, they bought a house and carefully researched savings schemes. By their forties they were financially comfortable and looking forward to an active retirement. But her mother-in-law had always been a spendthrift, enjoying expensive clothes and long holidays. When the mother-in-law divorced she spent all of her money on luxuries, and became destitute. The family rallied around and provided her with a flat and a small income for her old age. This used up most of Millie’s savings, and she felt bitter about the fact that she was now little better off than if she had squandered all those savings on luxuries for herself.

These three individuals all had difficulties, at a psychological level, reconciling their deeply held values about careful financial planning, with the fact that, in their cases, and through no fault of their own, their thrift had been in vain. (We know from other psychological research (Inglehart) that these economic values tend to be formed in childhood, and then tend to remain stable for the rest of ones life).

This left them with feelings of injustice and anger that they found difficult to deal with, wrestling with two opposing world views, the importance of prudence and their own futility and powerlessness to deal with economic forces outside of their control. Their strategy for dealing with this uncomfortable psychological dissonance is to avoid thinking about it (in exactly the same way that smokers and employees in the tobacco industry tend avoid thinking about the health effects of smoking).
Theory B. Procrastination.

Some of the interviewees described a state of immobilisation over their finances.

Juliet (20) had received a gift of £5,000 from her grandparents. She was aware that they had survived difficult times in their working lives, and so this money had not come easily to them. She had initially put it into her Post Office savings account, earning a very low rate of interest. She had identified a building society account which would more than double the rate of interest, and had tried to set this up a couple of times, but each time the forms had required information that she did not have to hand. This had been going on for over a year now, and Juliet was feeling very guilty about it, but just could not get around to finalising the transfer. She was aware that this sort of delaying of important but non-urgent tasks affected other aspects of her life too, such as replying to correspondence and doing her coursework as a student.

Other respondents said that they usually managed to keep up with their financial affairs, but when they let them slip for a few months they also go into a vicious circle of avoiding the tasks, which served to increase feelings of guilt and anxiety.

This avoidance of action through procrastination is typically caused in situations where the decision-making stages are time- and effort-consuming, frustrating, and the rewards of appropriate action are seen as relatively low.

Theory C. Lack of confidence in dealing with financial information.

Some respondents expressed a lack of confidence in dealing with the information they received from financial service providers. One described looking through descriptions of financial products as being like learning French at school, wading through documents that she struggled anxiously
to understand. Others described the feelings that they had when dealing with lists of numbers and their frustration at being able to reliably add a column of figures. The higher prevalence of financial avoidance among blue-collar respondents suggests a correlation with education, but some of the respondents who described these feelings most vividly were successful professionals.

It should be remembered that these hypotheses remain tentative, and would need further empirical research, particularly longitudinal research, to verify these findings. The omnibus survey only gives us a snapshot regarding these respondents’ attitudes and reported behaviours at one point in time, yet this research suggests that their personal histories are crucial to understanding the way that they are today. It is highly likely that many of the individuals in the in-depth interviews and the omnibus survey identified as having a emotional aversion to personal finance were, at some point in the past, very confident savers, borrowers and financial planners. But events that happened in their lives transpired to rob them of their confidence. Thus if we had the opportunity to compare these individuals’ scores on the financial aversion scale with their previous scores, rather than comparing them with other individuals, we would probably find that the effects of financial losses were seriously underestimated in this omnibus data. Other parts of the in-depth interviews suggested there may be other causes of this syndrome, such as an antagonism with the dominant capitalist and materialist values of our society. And it is clear from the evidence that aversion to personal finance can have multiple causes, some idiosyncratic.

Having investigated the measurement of financial aversion, and the characteristics of high-scorers on the scale, it is now possible to give a working definition of the scale. The Financial Aversion Scale measures the disposition to avoid cognitive engagement with matters concerning the management of ones own
personal finance. It measures the extent to which individuals associate thinking about their personal finances with negative emotions such as anxiety, guilt, boredom or feelings of a lack of control.

The high scorers on this scale, termed Financialphobes are defined as those scoring 10 or below on the financial aversion scale, which corresponds to approximately 20 per cent of the sample of adults in the omnibus sample used to derive the scale (this cut-off point may give different proportions of high scorers when used with samples drawn from different populations).

The behavioural correlates of this syndrome include a tendency to avoid financial information, and thus to lack vigilance over bank and credit card statements for instance. Financialphobes are, for instance, less likely to open and reconcile their bank statements than others. And for a significant proportion of financialphobes, the thought of having to deal with their personal finances causes very unpleasant emotional states and physical sensations such as dizziness, immobility and feeling physically ill.

Note that in this case the term “phobe” is used in the same sense as “Europhobe” in referring to someone who has a negative predisposition towards Europe. It may share many of the characteristics of some psychological phobias, such as arachnophobia (the fear of spiders) or agoraphobia (anxiety about being in places or situations from which escape might be difficult) but it is not necessarily a true phobia by DSM-IV criteria. It may also, like these phobias, be resistant to change, as the repeated avoidance of the negative stimuli is rewarded by a more pleasant psychological state. Also like these phobias, it is probable that, with an appropriate intervention, they can be readily cured.

Another question of importance is whether the sorts of avoidant behaviours described here tend to co-occur with avoidant behaviours in other domains of people’s lives, such as avoidant personality disorder. The evidence from the in-depth interviews tended to suggest that those
individuals, who scored highly on the proto-type financial aversion scale from the telephone interviews, were well-adjusted individuals who coped well in other psychological and social aspects of their lives. So, rather than dealing with a more generalised or non-specific anxiety, financialphobes appear to be very specific in their aversive reactions to personal finance, with no evidence of spill-over into interpersonal relationships or problems in their careers. But it is possible that high financial avoidance scores are more common in individuals with severe depressive or anxiety disorders.

9. Conclusions

This research has greatly enhanced our understanding of a previously poorly understood phenomenon, the complex emotional responses that individuals have towards managing their personal finances, and the effects of those emotions on behaviours, such as reconciling bank statements and planning for the future.

Consumer behaviour has been extensively researched, particularly within the sub-discipline of marketing. But the psychological understanding of the way in which individuals “consume” financial products and services has received little attention, and the research described in this report suggests that the behaviours and underlying emotions related to the management of personal finances are very different.

The focus on emotions as a way to understand an individual’s psychological orientation to personal finances is also relatively unusual. But the return to the study of emotions is a common theme across many domains of social psychology in the past two decades, reacting against the “cold cognition” approach of the 1970s and early 1980s.

But if one goes back further to some of the great thinkers in the disciplines of economics and psychology, one can find strong support for this approach.
For instance, Keynes realised that predispositions at the emotional level were important to understand the behaviour of the stock market. A survey by Lewin (1996) provides an historical analysis regarding economists’ departure from Bentham’s original formulation of the utility construct, where emotions played a significant role. Rabin’s (1998) survey “Psychology and Economics” has, on the other hand, little to say about emotions. This is a neglected characteristic of economists (Hanoch, 2002).

Encouraging individuals to plan for the future has been an important aim for successive governments. High levels of home ownership, extensive personal savings and adequate pension arrangements are seen as increasingly important to cope with the “demographic time-bomb” and flexible, insecure labour markets. But financial avoidance is a clear obstacle in the path of encouraging such behaviour, and there is no evidence that the proportion of the population experiencing this condition is reducing with time; in fact there are several pointers, including the demographic profile of the condition and the increasing complexity of modern society that suggest that the proportion of individuals in society is increasing over time.

It is important to emphasise that financialphobes do not display the characteristics of many of the simplistic stereotypes that we have of feckless or incompetent individuals. There is no evidence that they are spendthrifts, impulsive or unintelligent. Many of them are highly intelligent people who are high achievers in other domains of their lives, such as their careers and family lives. They understand well the importance of sound management of their finances, but they seem to have become entwined in a psychological syndrome which makes it unpleasant for them to deal with their personal finances. But, it seems that many of the causes of this syndrome are avoidable if there is an understanding of the phenomenon and a willingness to act by the government and the financial services industry, both individually and in collaboration.
Unlike some other groups of financial services customers (such as ‘carpetbaggers’ or Railtrack shareholders) financial phobes have not organised on their own behalf or formed pressure groups to draw public attention to their condition; they have remained a “silent minority”. As the research has demonstrated, this condition is characterised by attempting to avoid any situation that would focus their attention on their personal finances. They often required a lot of persuasion and reassurance to take part in this study, and if it had not been for Egg commissioning this research, financial phobia would have remained a hidden problem. But, as the recommendations below argue, the implications of this phenomenon go beyond the personal discomfort and misery experienced by this sub-set of the population.

**Recommendations**

This research suggests that the most prevalent cause of financial phobia is “frustrated prudence”. In other words, where careful attempts have been made to act financially, but where these attempts have been thwarted by forces outside of the individual’s control, leaving them with a feeling of injustice disempowerment. In some cases little can be done about this, for instance in cases where feckless relatives have made large demands upon their careful families. But in other cases policies could be clearly amended to avoid good financial managers becoming financial phobes.

1. Some government means-tested measures, for instance where capital from homes is used to pay for long term care in old age, are commonly seen as prejudicial against those who have planned carefully for their financial futures. Experience of this sort of treatment is likely to cause financial avoidance.

2. This research suggests that the mis-selling of financial products, such as endowment mortgages and pensions, has far wider implications than the loss of money or security in that one domain. It could lead to this more general syndrome of financial avoidance across all aspects of personal finance. This suggests that mis-selling may have even greater implications for the relationship between members of the public and the financial services
institutions, and that the eradication of mis-selling of financial products needs to be given even greater priority by the industry and its regulators.

3 There has been a tendency over the past 25 years to encourage private small investors into riskier investments, in particular those linked to the stock market, such as ISAs, PEPs and shares in privatised utilities such as railtrack. There is some evidence that, in the selling of these products, the amount of risk has been downplayed. But even if this is not the case, one might question the wisdom of encouraging small investors into volatile markets where hard-earned income which is seen as essential to, say, retirement can be lost. Beyond the actual loss itself, the resulting financial avoidance among lay-investors may be a greater price to pay in the long run.

4 Although procrastination might be seen as an individual psychological failing, there are clear situations which are likely to exacerbate its influence. In particular, when the costs of making decisions or taking actions are high relative to the potential gains, individuals are more likely to procrastinate. This is the case with many financial products, such as the transfer of accounts between banks. And it is widely believed that some older, more established financial institutions deliberately make some transfers between financial products complex and time consuming as a way of retaining customers. This may be an anti-competitive practice in itself, but if it is also a cause of financial aversion among individuals then it will have long-term negative consequences for both investors and the industry.

5 Finally, the complexity of some financial products, combined with an individual lack of confidence in dealing with financial material is a recipe for financial phobia. This can be dealt with on two fronts. Firstly, the UK education system should take educating people in personal finance more seriously as an essential citizenship skill necessary to empower individuals in their adult lives. Secondly, the sellers of financial products need to put far greater efforts into transparency and clear explanation, and the avoidance of poorly understood jargon, "smallprint" and complex financial statements.
References.