findings

# Family finances in the electronic economy

**New forms of money - such as credit cards, debit cards and chargeable or 'smart' cards - and telephone and Internet banking are creating an 'electronic economy' within which money is virtually invisible. Jan Pahl examined the ways in which new forms of money are changing the financial arrangements of married and cohabiting couples, using quantitative data from the Family Expenditure Survey and qualitative data from focus groups and interviews. The study showed that there are clear patterns of exclusion from the electronic economy, which reflect education, employment status, income, gender and age. The results suggested that:**

- **Those who are affluent and technologically confident may enjoy and be excited by new forms of money: in the electronic economy of the future they are also likely to be privileged consumers.**
- **Those with low to middle incomes and less secure jobs are often very anxious about using new forms of money: some may be careful about not getting into debt, but others may not be able to resist easy credit.**
- **Some individuals and families are more or less completely excluded from the electronic economy. Risk factors that make financial exclusion more likely include leaving school at the minimum age, being low paid or without a job, being a woman, and being retired.**
- **The electronic economy is changing the ways in which couples control and manage their finances. Individuals can use new forms of money to control family finances or to conceal spending from each other or to maintain a higher standard of living than their partners.**
- **Men make more use of new forms of money than women, and tend to dominate access to new technologies, such as Internet banking: this can alter the balance of financial power within marriage.**
- **The researcher concludes that possible policy responses include reducing financial exclusion, extending money advice services, creating easier access to affordable credit, for example, through credit unions, and generally ensuring that financial services are as widely available and as well understood as possible.**

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## Introduction

Twenty years ago, most payments were made by cash or cheque, credit cards were used rarely and debit cards not at all. However, cash or cheque payments are now being superseded by automated payments and debit cards are overtaking credit cards. Most people now have at least one bank account, though it is estimated that two out of ten households still do not have a current bank or building society account.

Telephone banking is well-established (24 per cent of all current accounts), while Internet banking is building on the fact that a third of adults in Britain now have access to the Internet (but only 2 per cent of semi-skilled workers and unemployed people). Chargeable or 'smart' cards are now spreading and will be central to the development of electronic commerce (e-commerce).

In the future those who can make use of electronic forms of payment are likely to be able to save money and gain access to a wider range of goods and services. Thus managing and spending money is no longer simply a matter of making the cash go round, but an electronic activity which is shaped by complex social and economic processes. This global financial system gives privileges to some individuals and households but partly or completely excludes others.

## Background

The new forms of money are being launched into the complex world of personal and family finances. For example, one enthusiastic user of on-line banking said:

> **It has really made a difference. I can keep an eye on what my wife has been spending and I know what is coming in on a daily basis over and above the last statement.**

Previous research on family financial arrangements has shown that couples control and manage their money in many different ways. Some pool all their income, typically in a joint bank account, and attach considerable importance to financial equality. Other couples maintain independence in financial matters, dividing responsibility for the payment of joint bills, and attaching importance to privacy and autonomy in financial matters.

Some couples give overall financial control to one partner, while others divide finances into separate spheres, making each partner responsible for specific areas of spending. The most recent evidence suggests that about half of all couples pool their incomes, typically in a joint account. In about a third of couples finances are managed by the wife, while in about one-sixth they are managed by the husband, typically with a housekeeping allowance being transferred to the wife. Finally, a small but growing number of couples hold and manage their money as though they were still two separate individuals.

However, most research on the control and allocation of money within marriage has paid little attention to the implications of new forms of money.

## Approaches to the electronic economy

The study's focus groups suggested that there were four distinct approaches to the electronic economy. The **enthusiasts** were more likely to be men and tended to be interested in all new forms of money. With relatively high incomes, they were able to acquire whatever credit cards they wanted. New forms of money seemed to be part of a more general life-style, which involved keeping up-to-date with fashions in technology and in finance: this group tended to be eager to find out about telephone and computer banking. One man said:

> **I love Visa. I mean where else can you go with a bit of plastic - leave England at six o'clock in the morning, be halfway round the world at twelve o'clock the following day and still carry on using it. It's superb.**

The **sceptics,** by contrast, felt doubtful about the benefits of new forms of money, even if they had the income to be eligible for every type of credit card. This group was most likely to express concern about giving credit card details over the phone or Internet, and they valued the personal service given by branch banks. They were most likely to pay by cheque and, though they used credit and debit cards, still thought of cash as 'real money'. This group contained a higher proportion of middle-aged and older people, and was predominantly middle-class.

Low- to middle-income households who used new forms of money were divided between the **careful** and the **carefree.** Limited incomes meant that both groups could find managing finances problematic and information about new forms of money could be the best protection against financial disaster. For the 'careful', credit cards offered a way to smooth out demands on the budget, but this required considerable self-control, if the aim was to pay off the debt each month.

The 'carefree' approach was epitomised by the woman, who said:

> **It's a 'sod it' card, isn't it? That's what it is. You want to do something, you haven't got the money and you think, 'Oh, we'll go and do it anyway – sod it'.**

The 'carefree' often seemed to assume that their credit limit represented the amount that they could reasonably spend and they were resigned to paying interest on the debt. If their income dropped, they could face real financial problems. Another consequence of a drop in income could be a loss of credit worthiness.

Those who were **excluded** typically had low incomes and were not considered eligible for credit by banks, building societies, credit card companies and credit rating agencies. Clearly poverty was a major issue, involving a relentless struggle, usually by the woman, to juggle debts and commitments of one sort or another. Some had given up cards in order to achieve greater control of their finances. In these circumstances cash typically became the main form of payment. As might be expected, the 'excluded' were more likely to be unemployed or retired, or in low-paid work.

The focus groups suggested an increasing polarisation in terms of access to the electronic economy. The 'enthusiasts' were rich in financial terms, but they were also 'work rich', in that typically they belonged to households with more than one earner, 'credit rich' in that their credit rating was secure, and 'information rich' in that they felt confident about their ability to manipulate the financial marketplace.

At the other extreme, those categorised as 'excluded' were also 'work poor', typically living in households without a regular earner, 'credit poor' in that it was hard for them to get any sort of loan, and 'information poor', in that they did not understand the rules of the new world of personal finance.

## Patterns in the use of credit cards

The Family Expenditure Survey showed that 33 per cent of men, but only 28 per cent of women, had used a credit card over a two-week period for which each spender was asked to complete an expenditure diary. Differences in the use of credit cards were associated with differences in employment status, as Table 1 shows. When the man and the woman were both in full-time employment they were equally likely to have used a credit card. However, women in part-time employment were less likely, and women without employment very significantly less likely, to have used a credit card compared with their employed husbands.

Only a very few unemployed people had used a credit card during the two weeks. Retired people also had low credit card use. This may partly have been a result of low income and lack of credit-worthiness. But it may also have been due to a lack of financial confidence in new forms of money and a general mistrust of getting into debt. There was a significant difference between men and women among retired couples, which might have reflected differences in income, women's lack of confidence in using new technologies or a tradition of male dominance in finances.

## Money and marriage

New forms of money were altering the ways in which couples controlled and managed their finances. In particular, the balance between 'our' money and 'my' money seemed to be changing, diminishing collective imperatives and allowing individuals to pursue their own financial goals, without consulting their partners. The following examples came from the interviews:

- A couple where both partners were in full-time work, who were using new forms of money to maintain a distinction between 'his money', 'her money' and 'our money'. He said:

  **If it's a joint thing then we'd put it on her Barclaycard, and if it was business, it obviously comes off my account, and if it's for going home to my parents, then I pay, and if we're going to her parents, then it comes out of her money.**

- An unemployed couple, still struggling to pay off credit card debts from the time when they had jobs. The wife managed finances and was wary of using her credit card. She said:

  **I have to remind him that there's things to pay and he can't just go out and squander money. I get very**

### Table 1 Percentages of individuals using a credit card over two weeks

| *Couple were:* | *Men* | *Women* |
|---|---|---|
| Both employed full time | 42 | 41 |
| Man employed full time, woman part time | 42 | 35 |
| Man employed full time, woman without paid work | 37 | 25 |
| Both retired | 21 | 14 |
| Both unemployed | 6 | 7 |

**worried about money. If I haven't paid something I can't sleep. But he says things like, 'We only live once'.**

- A husband in full-time employment whose greater earning power had enabled him to take control of the credit cards held by his wife, who worked part-time. She said:

**So now he gets the statements on our joint Visa card, which I don't really like: I like to have some sort of mysteries in my life.**

## Banking as biography

Every couple has to strike a balance between being two financially autonomous beings or one financial unit with joint bills to pay. In this process, economic rationality may be less important than views on marriage. The banking arrangements of couples can reveal a great deal about the nature of the relationship. The joint account continues to be a powerful symbol of marital togetherness, but an increasing concern with financial autonomy is showing itself in the growth of 'partial pooling', where couples combine joint and sole accounts. Half the couples in the focus groups and interviews had both joint and sole bank accounts, while one-quarter only had joint accounts and one-quarter only had sole accounts.

## Implications for policy and for financial services

The study had implications for many areas of policy. These included:

- Working to reduce the financial exclusion of some individuals, families and neighbourhoods. This has been a major focus for the Government's Social Exclusion Unit and is being followed up by Policy Action Team 14.

- Developing alternative and affordable sources of credit, for example, through credit unions. The Credit Union Task Force and Policy Action Team 14 are both concerned with this issue and their reports should help to shape new enabling legislation with regard to credit unions.

- Extending financial education and financial advice services. The Financial Services Authority (FSA) has been given responsibility for providing appropriate information and advice to consumers about financial services.

- Monitoring the development of the electronic economy, so that it does not exacerbate financial exclusion. Electronic handling of money can be used to reduce exclusion, for example, through Pay Points, which enable low-income consumers to pay utility bills in cash in local shops.

- Taking account of research on the control and allocation of money within the family in the development of policies related to financial aspects of cohabitation, marriage and divorce.

## About the study

Three different sources of data were used. First, analyses of the 1993/94 Family Expenditure Survey provided quantitative data about 3,676 married couples, which could be generalised to the national population because of the representative nature of the survey. Secondly, seven focus groups took place during the winter of 1996/97, involving 59 individuals living in five different parts of England. Finally, face-to-face interviews were carried out in 1998 with 40 couples, with men and women being interviewed separately and privately.

## How to get further information

The full report, **Invisible money: Family finances in the electronic economy** by Jan Pahl, is published for the Foundation by The Policy Press (ISBN 1 86134 158 X, price £11.95).