Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Submitted online: debtconsultation-responses@maps.org.uk

Dear Sir / Madam,

Financial Services Consumer Panel response to Money and Pensions Service Debt Advice Strategy 2025-2028

The Financial Services Consumer Panel (the Panel) is an independent statutory body. We represent the interests of individual and small business consumers in the development of policy and regulation of financial services in the UK. Our focus is primarily on the work of the FCA, but we also look at the impact on consumers of other bodies' activities and policies where relevant to the FCA's remit. We are responding to this consultation because debt advice is a regulated activity which is critical to millions of UK consumers. This response highlights a number of areas where the Money and Pensions Service (MaPS) and the FCA can work together to enhance the provision of debt advice.

The Panel's long-term vision for financial difficulty and debt advice is:

- Consumers can access tailored support, helping them resolve debts without compromising their ability to pay for essentials and enabling them to return to mainstream financial services.
- Consumers can access high quality debt advice services via a channel that suits individual needs and achieve outcomes to promote long term financial well-being.
- Regulated debt advice should be the gateway to all formal and informal debt solutions.
- The system of support for consumers in financial difficulty works holistically and efficiently as a whole (e.g. across lenders, other creditors, debt advice providers, financial and other regulators) such that harm resulting from inefficient processes or siloed ways of working are minimised.

- Consumers are achieving good outcomes when they experience financial difficulty and when they are following debt advice (e.g. dealing with priority debts ahead of unsecured credit)
- A workforce of recognised professionals, continuously trained in the skills and knowledge they need, complying fully with a robust regulatory regime.

In the Panel's view, the key risks of harm facing consumers in relation to debt advice are:

- Not being able to access services. Of 8.1 million people in need of debt advice, only around 2 million access it. Low awareness, low understanding, personal embarrassment and other barriers exist, but the principal cause of this gap is funding. MaPS makes a major contribution to supply, funding advice for around around 700,000 people, and has increased its funding significantly over time. While the quantum of funding and who pays the bill are out of scope for this consultation, our response points to ways in which MaPS can do more to close the gap.
- Getting poor advice. The Panel has no evidence of widespread problems with advice quality, reflecting the diligence of front line advisers. The Panel also welcomes measures to protect consumers from bad advice such as FCA's intervention on debt packager fees, the Insolvency Service's review of the IVA market and the initial steps taken by Google and others to try and stamp out impersonation of regulated services in online searches. But concerns persist about the consistency of advice across different providers, about the quality assurance and supervision of advisers in smaller agencies and about engagement with the FCA's Consumer Duty in parts of the sector. Our response suggests ways FCA and MaPS can increase the reliable quality of both MaPS-funded services and others.
- Disjointed journeys, which potentially lead to people disengaging before they have a comprehensive plan of action to tackle their debts.

We understand why these key issues, and therefore important potential mitigators of the risks, are largely out of scope for the consultation, but this only highlights the limits of what MaPS can achieve alone. To frame our responses to some of the detailed questions, it is worth spelling out the Panel's views on these out-of-scope topics.

- The funding model for debt advice needs to change. Compulsory funding of debt advice needs to be broadened beyond the regulated financial sector to include others who create and exacerbate personal debt: utilities, private and social landlords, the gambling industry and the public sector. This will allow funding to rise faster than it can on the current narrow funding base and encourage sectors with poor practices to improve how they prevent and alleviate debt at source. Ways need to be found to enable MaPS to commit funding beyond each 3-year Comprehensive Spending Review (CSR) period. Driving up capacity, reach and quality is a long-term programme, and could be considered like other long-term public/private partnerships.

- The community-based debt advice sector offers vital services to some of the most vulnerable people, who face some of the most complex and intractable issues. These services require strategic support to invest in improved technology, quality assurance, management capability, adviser training and professional development and engagement with regulation.

The Panel suggests the following priorities for MaPS in the next phase of its debt advice strategy:

- A 10-year strategy for community-based services to enable their distinctive model to remain part of the mix for the long term.
- Continue to push up efficiency and effectiveness in national phone and online services, including ambitious approaches to how these services can better serve people with complex needs and circumstances.
- Evaluate the "hub" approach and critically appraise where it is more and less likely to work better than decentralised alternatives.

Consistent, long term investment is needed in community-based services to upgrade human capital (to attract, train and retain adviser workforces) physical capital (premises and other components of the environment for advisers and clients) and technological capital (equipping advisers with tools to underpin advice, improve client and adviser experiences and efficiently assure the regulator around advice quality). This will require a partnership between MaPS, FCA and others to create the right conditions to attract such capital. Work items for such a partnership might include:

- Establishing what commitments from MaPS would attract co-funders
- An agreed sector-wide outcomes framework describing what good debt advice achieves. The outcomes debt advice clients obtain should not depend on whether their advice is funded by MaPS;
- A predictable and realistic roadmap of regulatory and legislative change, which should encompass

- supervising and enforcing consistently high standards against the Consumer Duty, while clarifying the responsibilities of debt advisers and regulated creditors
- the review of FCA's vulnerable customer guidance
- the review of Chapter 8 of FCA's CONC handbook, which should focus on known pain points for advisers such as confirmation of advice letters
- the outcomes of reviews into the Consumer Credit Act and Personal Insolvency Framework
- commitment by advice agencies to changing aspects of how they work.

This will create a sector that is reliably meeting regulatory standards and not accumulating complaints and liabilities, regulation that can reliably supervise the sector, and more accessible, efficient and engaging experiences for clients and advisers. This partnership will help attract investment alongside MaPS' own.

The justification for regulatory involvement in this approach is the risk of harm from the unavailability of debt advice services and from inconsistent and poor quality, against a background of insufficient funding.

The Panel applauds MaPS' evidence-gathering and engagement with stakeholders, including the efforts to bring in the voice of consumers. This work has generated a comprehensive consultation. The risk is that MaPS has raised expectations about how much can be done, and that it receives contradictory feedback on the priorities.

The Panel has only answered some of the questions in the consultation. Please see Annex A for our responses.

Yours sincerely,

Helen Charlton

Chair of the Financial Services Consumer Panel

Annex A: Answers to Questions

<u>The debt advice services that MaPS funds now and what we could commission in the future</u>

Question 1: Do you agree that MaPS continuing to commission a range of debt advice service models is the best way to make debt advice accessible and available for those who need it? (Please provide supporting evidence where appropriate)

Yes. A mix of provision is right, given MaPS' research finding that people in need of advice will use a variety of channels, but few would use *any* channel[1]. MaPS must continue to monitor take-up of its funded services, including checking that no groups are being under-served (e.g. people with specific protected characteristics or vulnerabilities).

Question 3: Should MaPS change the scope of the services that it funds given increased debt advice case complexity? If so, how?

MaPS should consider the integration of income maximisation into debt advice as standard. It is common practice among advisers, but also complicated and time-consuming, requiring expert knowledge and access to resources. The Panel has an open mind on whether it is better to commission centralised provision which debt advice services could build into their services, or to integrate such requirements into each debt advice contract and grant, leaving it to providers to resource accordingly. If resources allow, it might be sensible to pilot both approaches.

Question 4: Do you have any views on how this work should be prioritised or additional views you want to share? (Please provide supporting evidence where appropriate)

The Panel would support a focus on further developing community-based services in the next commissioning round, building on MaPS' recent measures to relieve the pressure of targets in this part of the sector and more fully recognise the time advisers need to spend with each client. This is because such services:

- over-index for serving the most vulnerable people with the most complex needs.
- lack well-resourced compliance and QA functions and are among the least engaged with regulatory change like the Consumer Duty.

[1] Consultation Paper p53

- find it harder to attract non-MaPS funding, especially longer term scale commitments from creditors.
- are at risk from the pressures facing local authorities. There is anecdotal evidence that the risk of council bankruptcies will both increase demand for debt advice via higher Council Taxes and increased collections activity, including use of bailiffs, and reduce supply through cuts to (non-statutory) in-house debtor support teams and funded local advice services.

We believe the necessary transformation of the community-based sector, in terms of its technology infrastructure and premises, its leadership, compliance capability and the professional development of its advisers, is a 10-year project requiring consistent and carefully paced investment. MaPS should avoid attempting to make the sector swallow too much change too quickly and could helpfully regard the next commissioning round as the first chapter in this transformation.

Question 5: Do you agree that MaPS should continue to provide these services[2]? (Please provide supporting evidence where appropriate)

The Panel believes that the provision of business debt advice is important, especially with respect to specialist services for small and micro-businesses, including the self-employed. We are aware of non-MaPS funded provision for the customers of specific banks but believe MaPS should continue to ensure services are available to all businesses.

We are pleased that the MaPS-funded Debt Relief Order (DRO) hubs appear to be supporting higher provision of this vital debt solution to clients[3]. It was clear that without MaPS-funding DROs (which cost £100-200 to administer and which attract only £10 of public funding per case) would have become harder for the public to access via free advice.

There is limited evidence on the operational success of the DRO hubs, in terms of their accessibility to clients and advisers, and their efficiency compared with other delivery models. MaPS should publish a full evaluation, including lessons learned, before deciding whether hubs are the optimum delivery model for DROs, or whether they are the best positioning for the sector as it faces the outcome of the personal insolvency review. It is particularly important that this evaluation looks critically at where else a "hub" approach might help the sector and its customers and where copying it might carry risks. Such work will need to

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[2] DRO Hubs, Business Debt Advice and the Mental Health Crisis Breathing Space service

[3] https://debtcamel.co.uk/dro-hubs-2023/

be timed so that changes resulting from the Spring Budget DRO measures have had time to feed through to demand for DROs and to adviser and intermediary processes.

Question 8: Do you have views on whether MaPS should explore the need for these services[4]? (Please provide supporting evidence where appropriate)

Yes, MaPS should explore such services, which could meet key needs.

Question 9: Do you have any views on how this work should be prioritised or additional views you want to share? (Please provide supporting evidence where appropriate)

The Panel's suggested priorities are

1. deficit budget support.
2. specialist services for people with particular vulnerabilities or needs.
3. Access to debt solutions.

Under Question 3 the Panel has argued for income maximisation support to be provided as standard within debt advice services. This will help, but with over 5 million people in deficit budgets, more thought than this needs to be given to how to support the most complex cases. We are attracted to the idea of piloting different approaches, including partnerships between local services and others.

Ensuring access to debt solutions is important to the resolution of people's debt problems and the resumption of mainstream financial activity, as has been shown in the case of DROs. Another case worth examining is the economics of small value debt management plans. These are increasingly challenging to offer under the fair share funding model yet remain a valuable option within an overall debt strategy and would make plan providers more resilient in cases where in-flight plans need to adjust downwards as clients' circumstances change.

MaPS' role as a commissioner and funder

Question 11: Do you agree on the commissioning approach and principles that MaPS has set out? What feels most important to you? In your opinion is there anything we have not considered? (Please provide supporting evidence where appropriate)

[4] Advice for clients with deficit budgets, accessibility of debt solutions, services for people in vulnerable circumstances, service "navigators"

Section 2.1 of the consultation is not clear on what the "principles" *are*, exactly. They appear to combine a collaborative approach to selecting *what* to commission, and how each service should be designed, with a highly commercial approach to *how* to procure for each service, in line with public sector rules and practice. This might simply be a description of the constraints on MaPS as an arms-length body of Government, but we believe MaPS has considerable discretion over how procurement is structured within the Government framework and could be more imaginative in its longer term planning.

Previous experience suggests several lessons that MaPS could learn for the future:

- The risk of asking the community-based providers to absorb too much change too quickly in the sector's most important funding pathway.
- The risk of suppressed competition for any national supply contracts, caused by a division between providers who have become dependent on MaPS' money and those who are unwilling to seek it because of the costly bidding process and the risks associated with failure.
- The number of each type of contract or grant it issues.
- The need to prepare the market, including creditors, regulators and others, for change.

The Panel suggests MaPS consider its approach to the community-based sector as the first part of a 10-year transformation plan. With careful design, Government could empower MaPS to commit funding to community-based debt advice infrastructure over the next 10 years[5]. Maybe part of the answer is to classify some of MaPS' funding as capital spending, which signals the long-term intention to improve the human and technological resources supporting vulnerable people and potentially makes it less likely that MaPS investment will be offset by reductions in other (non-capital) funding.

The investment case for such a long-term programme is

- A long-term commitment from MaPS/Government might unlock improved prices and terms from commercial suppliers of IT and other services.

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[5] CSR periods do not stop other parts of the public sector committing to strategies of more than 3 years' duration (eg the NATO membership obligation to spend 2% of GNP annually on defence. The recent history of overseas aid spending shows such commitments can be over-ridden, but only at some political cost.)

- To safeguard the provision of local services into the long term, such services need access to the kind of technology and professional support available to national phone and online providers, to improve client services, to improve the tools and support available to advisers and improve their wellbeing, and to make it more efficient to assure regulators that high quality, well managed, financially resilient services are being offered to the public.

Question 15: Do you agree with MaPS' understanding of the impact that changes in our funding and strategic approach can have? What feels most important to you? In your opinion is there anything we have not considered? (Please provide supporting evidence where appropriate)

AND

Question 16: Do you agree with the opportunities MaPS has set out in working with other funders of advice? What feels most important to you? In your opinion is there anything we have not considered or downsides we have not thought of? (Please provide supporting evidence where appropriate)

AND

Question 17: Do you have any views on how MaPS should embed our ways of working with other funders of advice? (Please provide supporting evidence and examples that you consider to be best practice of this way of working where appropriate)

With no change to the funding model for debt advice in immediate prospect, a key strategic focus for MaPS is how it can work more effectively with other funders. MaPS is clearly alive to the kinds of impact its funding decisions can have, and to the main opportunities and challenges of strategic collaboration with others. The FCA and Government should support this with their convening power and influence, helping MaPS to attract and sustain funding from other sources to support strategic long term investment and tactical innovation. The approach to long term capital funding of the community-based sector that we proposed above would pose new questions about the linkages and dependencies between MaPS and other funding, but also potentially open previously unavailable sources of commercial investment.

As an arms-length body of Government operating by public procurement rules, MaPS has lost some of the flexibility and agility that the Money Advice Service previously used to adjust the distribution of funds and capitalise on opportunities to innovate. We suggest MaPS consider creating flexible challenge/innovation funds outside the commissioning process where this offers greater pace and flexibility, greater opportunities for co-funding partnerships, and lower overheads in the delivery of funds to the front line. Competitive tendering is not the only way to be accountable for the use of public funds, and this kind of flexible approach seems particularly appropriate for the first phase of a 10-year transformation of the community-based sector.

Focusing on adviser wellbeing and supporting the debt advice workforce

Question 18: Do you agree that MaPS should continue with these activities[6]?

AND

Question 19: Do you have any views on how these activities should be prioritised or additional views you want to share on these activities? (Please include any supporting evidence to illustrate your reply)

AND

Question 20: Do you have views on whether MaPS should progress these additional activities[7] to improve how the sector supports the debt advice workforce? How should MaPS prioritise these activities against the other areas where we could have an impact i.e. funding debt advice delivery? (Please provide supporting evidence where appropriate)

AND

Question 21: Do you have any alternative suggestions about activities MaPS could be undertaking to improve how the sector supports the debt advice workforce?

The Panel is impressed with how MaPS has engaged with advisers to understand the issues they face. Their insights and experiences are a crucial input into the next phase of the debt advice strategy. MaPS will need to tread carefully in the area of workforce strategy: as a major funder it is too easily and too often held responsible for decisions that are

[6] Engagement with debt advisers, supporting adviser wellbeing in funded services, supporting consistency and quality of debt advice through accredited training, participating in sector workforce issues

[7] Salary benchmarking, Competency framework, career pathways, best employment practices, a sector workforce strategy

properly matters for employers. Given the other priorities facing it, the Panel thinks MaPS should restrict itself to:

- stipulating working conditions within its advice contracts and grants, and funding fair pay.
- researching whether the above factors contribute to better client outcomes and improved adviser wellbeing, so they can inform sector practice
- building a common understanding across its contracted suppliers and bidders for contracts about how TUPE might apply under different commissioning outcomes, to make funding changes in each commissioning round less of a cliff edge for services and advisers.

We consider career pathways and a competency frameworks as part of a workforce strategy alongside other measures to make it easier to deliver debt advice which securely meets regulatory requirements. See below.

Helping to make debt advice easier to deliver and looking to the future

Question 22: Do you agree that MaPS should continue with these activities[8]?

AND

Question 23: Do you have any views on how these activities should be prioritised or additional views you want to share on these activities? (Please include any supporting evidence to illustrate your reply)

AND

Question 24: Do you have views on whether MaPS should progress these additional activities[9] to help make debt advice easier to deliver in the future? How should MaPS prioritise these activities against the other areas where we could have an impact i.e.

[8] Providing and enhancing the Standard Financial Statement; identifying process improvements and advocating for change; supporting continuous improvement within funded services; ad hoc funding for infrastructure improvements

[9] Technology horizon scanning, support for piloting and testing new technologies and approaches, more shared infrastructure across the whole client journey;highlighting best practice

funding debt advice delivery? (Please provide supporting evidence where appropriate)

AND

Question 25: Do you have any alternative suggestions about activities MaPS could be undertaking to drive continuous improvement and support the sector to adopt new and emerging technologies?

The Panel's concern is that the consultation could give rise to piecemeal, small-scale initiatives, when what is needed is a strategic approach across multiple agencies. The infrastructure we consider important is that which will make it easier for advisers and advice services to ensure and demonstrate that their advice is consistently of the highest quality. This suggests Reg Tech, digital systems to support advisers, training and CPD for advisers and particularly for service managers and leaders. The Panel believes that good working conditions and positive cultures, professionalism and good outcomes that the regulator can be assured of, are likely to go hand in hand. And each is less likely to be delivered without the others.

Rather than create ad hoc opportunities for advice agencies to experiment with new technology, the community-based part of the sector needs the systematic deployment of proven systems, such as those used by advisers in creditors and debt collecting agencies. This will make advisers' lives easier and more client focused. It will contribute to workforce aims by making a competency framework and career progression easier to achieve, plan and manage. The conditions therefore need to be created for this long-term investment.

The Panel believes that a long-term investment approach by MaPS (see Q11 above) needs to be part of a strategic partnership - including the FCA, other regulators, sector employers, standards/qualification bodies and service and technology providers - to develop a 10 year strategy for improving the professionalism of the adviser workforce, the leadership of advice services, advisers' access to technology and support services, and their ability to demonstrate good outcomes to the regulator. The goal should be a workforce of recognised professionals, continuously trained in the skills and knowledge they need, complying fully with a robust regulatory regime.

Investment by technology and other organisations could be encouraged by

- The development of a sector-wide outcomes framework to make clear what debt advice should be delivering.

- A robust but patient drive to deliver the standards expected by the Consumer Duty, with the FCA providing clear guidance on where improvements are needed.
- A predictable roadmap for future regulatory change, along the lines of the Regulatory Initiatives Grid. This could cover the Personal Insolvency Review, the Consumer Credit Act reform and the FCA's work on CONC 8.
- Commitment from advice providers to change how they operate in return for uplifting the robustness and capability to levels currently reserved for national, digital and telephone provision, thus securing the future of in-person, locally based provision well into the second half of the 21st century.

The justification for regulatory involvement in this approach is the risk of harm from the unavailability of debt advice services and from inconsistent and poor quality, against a background of insufficient funding. The sector currently co-exists with a colossal "advice gap"; it lacks capital and access to capital; it faces a further reduction in capacity as advisers age and leave, and as non-MaPS funding is cut. The FCA currently faces a sector of which large parts are unsupervisable and likely to remain beyond the reach of a "data-led regulator". Firm failure and exit is also a constant risk.

Increasing public awareness and engagement with debt advice

The Panel shares MaPS' caution around raising demand for debt advice services which cannot in practice be met. This conundrum is a symptom of the shortcomings of the current funding model. Unmet demand would damage public confidence in services and create opportunities for scammers and others to take advantage of vulnerable individuals looking for help.

With this unfortunate constraint in mind, MaPS is likely doing the right things:

- enabling people to find debt advice for themselves.
- dealing well with customers who creditors have identified as needing advice.
- making sure the capacity of available services is used efficiently.

Though generally supportive, we note that the consultation provides little evidence on whether the current set of tools (the debt advice locator tool, the Money Advice Network and the various creditor good practice guides) are efficient, effective and worthy of further investment.

We would also support the provision of explainers of the advice process for people who are deciding whether to take advice (e.g. at the point of creditor referral). The consultation cites evidence that people are daunted by the prospect of debt advice and this might discourage some from starting or sticking with the process.

We welcome the use of partnership working to increase consumers' awareness and engagement with advice, and have seen success with models such as social prescribing. We see the roll out of Banking Hubs as an opportunity for further partnership working as debt advisers could be co-located with essential banking services in the new Hubs. This could prove an efficient way to increase capacity and improve efficiency of community-based advice and should be explored as part of the 10-year strategy proposed under Q11 above.

Building evidence and influencing others

Question 32: Do you have views on whether MaPS should progress these additional activities to better understand the value of advice and/or to drive more UK wide collaboration? How should MaPS prioritise these activities against the other areas where we could have an impact i.e. funding debt advice delivery? (Please provide supporting evidence where appropriate)

The Panel would support the development of an impact framework for debt advice. This would complement the outcome framework we call for under Questions 22-25 and support the investment case for the sector.