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

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Public financial guidance review
Financial services group
HM Treasury
1 Horse Guards Road
London
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8 June 2016

Dear Sir, Madam,

Public financial guidance consultation

This is the response of the Financial Services Consumer Panel (the Panel) to the government's consultation on public financial guidance.

The government's proposal to abolish the Money Advice Service (MAS) brand appears hasty and not founded on sound evidence. There is no analysis showing why the government has rejected other options such as strengthening MAS's governance and accountability. The level of detail in the consultation is very sketchy, and the paper puts forward no analysis of how the proposed changes will benefit consumers. The government could usefully learn from examples in other countries, e.g. the financial guidance centres in Germany, operated by the Verbraucherzentrale Bundesverband (vzbv).

It is positive that the government recognises the importance of improving financial capability, but the consultation leaves the future governance of the strategy unclear. The government appears to expect MAS's successor to have responsibility for financial capability, but is silent on leadership and governance. Evidence from around the world[1] indicates the importance of providing strong leadership for the financial capability strategy. Typically the finance ministry or central bank provides this leadership in other jurisdictions. It doesn't really matter, so long as it is an organisation with the clout to bring stakeholders together and drive the agenda forward. There also needs to be a 'centre of expertise' for financial capability, to keep up to date with what works.

Whether the successor to MAS is a deliverer or commissioner of services also doesn't matter greatly, but it must set standards for financial guidance, including ensuring that it is impartial and sales-free.

Merging Pension Wise and The Pensions Advisory Service (TPAS) should reduce duplication, although care will need to be taken to avoid consumer confusion. The government will need to ensure that the standard of guidance TPAS provides is maintained. TPAS advisers are required to have several years' industry experience and

[1] Advancing National Strategies for Financial Education, A Joint Publication by Russia's G20 Presidency and the OECD, 2013, page 212: https://www.oecd.org/finance/financial-education/G20_OECD_NSFinancialEducation.pdf

are capable of providing guidance on a wide range of complex issues and needs relating to all aspects of pensions and retirement under their own initiative (i.e. without a script).

The new pensions organisation should learn from issues that have arisen with the current model of pensions guidance – e.g. the difficulty for those receiving pension guidance to get advice about their debts – as well as new challenges such as the secondary annuity market. It will also be vital to increase take-up of the 'guidance guarantee', and reverse the decline in shopping around for retirement income products that has occurred since the government introduced pensions freedoms.

Yours sincerely,

Sue Lewis
Chair
Financial Services Consumer Panel

Consultation Questions

The Panel has only answered questions where we have substantive comments.

1. Are there any specific guidance gaps in the current pensions guidance offering that you think the new body should fill?

The new service should be similar to the service provided by TPAS, i.e. tailored and wide-ranging.

We would also comment that people should be encouraged to get guidance on pensions far earlier than the point of retirement. The vast majority of people in occupational schemes are in the default option. They need to understand how much they are likely to get when they retire 10-15 years out, so they can save more money or make plans to work longer. Some may want to adjust their asset allocation, to keep a higher proportion in equities, for example, if they plan to work beyond their retirement age.

The new organisation will need to provide more tailored guidance across a range of issues:

- Debt. People facing crisis debt who have a pension asset cannot currently get suitable guidance. Debt advisers do not have the requisite qualifications to provide advice or guidance on a regulated product. Pension Wise or TPAS advisers do not generally have the necessary knowledge of crisis debt management to give suitable guidance. Advisers within the new pensions guidance body will need to have much more in-depth knowledge of existing debt repayment options in order to take people through the pros and cons of all their options and refer people to specialist debt services as appropriate.

- Tax and benefits. The findings from 2014 Chartered Institute for Insurers (CII) research[2] showed consumers wanted pension guidance that was sufficiently personalised to allow them to navigate through the relevant information and build their confidence to make good decisions. The report recommended that the government and the FCA should ensure consumers receive a 'tailored' offer, to include tax information relevant to their circumstances. Referring customers to a tax calculator on a website is not the same as going step by step through a personal tax calculation with them. Similarly, respondents to the CII survey put the impact on benefits high on the list of information they want.

- Advice to UK expatriates. TPAS and others have reported a large number of UK expatriates being unable to find regulated financial advisers willing to provide advice on transferring their UK pension. Often this is because advisers' Professional Indemnity Insurers are directing them not to take this type of business. There is a clear need for general guidance in this area. We therefore suggest that a number of advisers within the new service are trained to a sufficient standard to be able to provide guidance to UK citizens who now live overseas.

- Mortgage borrowing, equity release and long term care planning. Comprehensive guidance needs to consider the whole 'balance sheet' of the individual, not just pension assets. It also needs to help people consider different future scenarios, including the potential need for long term care.

[2] CII, Guaranteed guidance for retirement – what consumers want, October 2014: http://www.cii.co.uk/knowledge/policy-and-public-affairs/articles/cii-report-guaranteed-guidance-what-consumers-want/32081

- Equally, if the new guidance service is to address pension accumulation, advisers must be able to provide personalised guidance on things to think about when choosing a pension scheme (particularly to the self-employed) and issues arising from automatic enrolment and the new Lifetime ISA.

2. Are there any pension-related topics that shouldn't be included in the remit of the new pensions body?

No. Consumers will presume that the guidance body covers all pension issues.

3. Will these objectives focus the activities of the new money guidance body sufficiently to allow it to improve consumer outcomes?

No. First, the objectives at 2.30 are inconsistent with the previous paragraph, which says that the new body will be "charged with improving financial capability in the UK", which sounds like the right objective. In order to do this, the new body will need to identify gaps in *need* (not just guidance), which will require research and understanding of what works.

If it has not done so already, the government might like to look at Financial Literacy Australia[3] (FLA), a non-profit commissioning body. Its mission is to advance financial literacy in Australia. It carries out activities like those listed in 2.30. The Australian Securities and Investments Commission's (ASIC) leadership of the financial literacy strategy in Australia is important. This consultation says that the new money guidance body will review the financial capability strategy, but not where it expects leadership to lie. This cannot sensibly be considered separately from the objectives of the new body. Of the 17 financial literacy strategies in Europe, the vast majority have a government, central bank or regulator lead[4].

On the provision of guidance, the abolition of the MAS brand could lead to consumer detriment, rather than improving outcomes. For example, most users of the MAS website come through Google search. These are not 'paid for' searches, but have been built from years of search engine optimisation. This will be lost when the MAS brand is switched off and we are concerned that consumers – who will still search for their answers in the same way – will be unable to find an independent source of guidance.

We also have concerns that some gaps in the provision of independent and impartial money guidance may be hard to fill. Excluding debt and pensions advice and guidance, there are very few independent and non-commercial organisations providing impartial guidance on general money issues such as borrowing, mortgages, protection insurance and budgeting. MAS is a trusted brand because the government set it up. Providers need to be equally trusted. We have no objections to a commissioning model, but it would be helpful to know where the government thinks the providers will come from, and how their impartiality will be assured.

4. What role do you think the new money guidance body should have in providing research?

We strongly support the research capability that MAS has developed and, in particular, its consumer segmentation model. This model will be invaluable in helping to identify financial capability needs and developing targeted communication strategies for different population cohorts, and we believe it should be owned and maintained by the new body. In general, it will not be possible for the new body to commission research effectively unless it has a good understanding of how well different approaches work, as noted in

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[3] Financial Literacy Australia Website: http://finlit.org.au/

[4] Financial Education in Europe: *Trends and Recent Developments.* OECD.DOI:10.1787/9789264254855-en

2.38 of the consultation. It needs to be a 'centre of expertise' in financial capability, even if it does not conduct research itself.

5. Would limiting providers of debt advice to FCA authorised firms rule out any types of provider?

If this question refers to the FCA regulated activity of debt advice then firms not authorised by the FCA to provide debt advice would be operating illegally, so whether they are ruled out or not is beside the point. However, providers could benefit from a clear definition of what is debt advice and how far guidance can go before it hits the regulatory boundary.

We would also observe that some free to client operators are going through full FCA authorisation, while publicly-funded organisations, such as Citizens Advice Bureaux, are being 'grandfathered' in. There is a risk that standards will be lower where organisations have not been through a rigorous authorisation process, and the new body will need to take account of this in defining and monitoring contracts.

7. How do organisations currently monitor outcomes? Do you have any suggestions for the outcomes which should be monitored?

This question is very vague. Public organisations should be monitored against their statutory objectives using metrics that are transparent and publicly available.

8. How could "hand off" arrangements be most effectively built into contracts?

In order for consumers to have a seamless journey it would be best to have one entry point – similar to NHS 111 - with suitably trained staff who can ensure consumers are directed to the service they need. This is, in effect, what the MAS call centre does now

It is important the new guidance body quality assures the bodies it will "hand off" to.

9. How should the new money guidance body seek to understand the gaps in the provision of money guidance?

We understand MAS has already undertaken a high level mapping exercise setting out which organisations provide money guidance nationally in the UK and what areas of finance they cover. However, money guidance is often funded and provided at a local level. The new organisation will therefore need to drill down to establish where all the gaps lie. It will need to review knowledge of the market to ensure it remains current. This is particularly important when considering local services as these are often vulnerable in terms of funding and may be withdrawn suddenly.

10. Is the planned focus on local and digital financial capability raising projects the right one?

Not necessarily. Different people access information in different ways. Making digital tools available will not drive individuals to use them. A great deal of money can be spent on tools and apps that consumers who most need them never use. Driving engagement is key. A public money guidance service should aim to be there when people need it using the variety of delivery channels that consumers use. Research on what solutions work best for different people and should be undertaken rather than assuming digital will do the job.

11. What should be included in the partnership agreement between the two bodies, and how could hand-offs best be specified?

We don't have any view on this other than to say it is important that the partnership agreements recognise and avoid or manage any potential conflicts of interest.

12. Do you have any other comments on the proposed model?

Our overall view is that the proposals are a distraction from the job of improving financial capability and getting financial guidance to people who need it. Rearranging the institutional furniture without evidence is not the best way to get good consumer outcomes. Going forward, it will be important to focus on outcomes and not to lose the progress that has been made since the Farnish review.

The leadership of the financial capability strategy is not clear from the proposals, although there is a suggestion that the MAS successor body will be responsible for delivering improved financial capability. In other jurisdictions, finance ministries or central banks typically lead financial capability/literacy strategies. Has the government considered whether HM Treasury, DWP or the FCA could absorb some of the gaps that will be left following the formation of a slimmed-down money guidance body? For example, the financial capability strategy could be brought under HM Treasury. This would seem to fit with other proposals in the consultation; and financial capability also links to the HM Treasury agenda on Life Chances, which we understand covers financial capability and financial inclusion.

MAS has built up significant brand recognition amongst consumers. Without substantial expenditure on marketing by the new guidance body, consumers will not know where to go for guidance during and after transition.

More than 8.4 million consumers contacted MAS in 2014/2015 (a 90% increase from the previous year)[5]. These consumers looked for information about budgeting, pensions (1.4 million page views)[6] and mortgages (1.7 million page views)[7].

Separate evidence provided by MAS shows the socio-economic group who use the MAS website most are working-age people, in particular those in the household income bracket of £10,000 to £34,999 per year[8]. This group will suffer immediate detriment from the loss of the brand and website.

Another major risk of losing the MAS brand is that someone else, such as a commercial organisation, could take up the brand and trade in on consumers' trust.

The government should also be aware that the current high performance of TPAS may be threatened by a merger with Pension Wise.

13. Would these proposals have any impact on delivery of public financial guidance in Scotland, Wales and Northern Ireland?

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[5] The Money Advice Service Annual Reports and Accounts 2014/2015: https://masassets.blob.core.windows.net/cms/files/000/000/212/original/MAS_ANNUAL_REPORT_2015_online_version.pdf

[6] Ibid

[7] Ibid

[8] The figures come from a YouGov online tracking survey which measured web users from the passively measured Pulse panel from 01/01/2015 – 02/03/2016. Within YouGov's Pulse panel (consisting of approx. 12,000 people who are currently signed up to be passively measured), there were 1,687 unique users of the Money Advice Service website during that time (via desktop browsers and mobile). The percentages are based on the activities of these users. The panel is known to have a small bias towards older males and females, but MAS considers its data to be broadly representative of its site users.

MAS has a specific presence in the devolved countries which allows them to represent, at a more granular level, what works in the different regions. The new guidance body will need to recognise that money guidance means very different things in the devolved countries.

14. What kind of tools and products do consumers most often use or ask about?

Front-line consumer bodies and delivery agencies have analytics on demand for, and use of, the various tools available. It is as important to understand who is *not* using these tools, and why. People who could benefit from tools but don't use them need targeting in different ways. Again, the MAS consumer segmentation should help with understanding this.

15. Which content on the MAS website is most useful for consumers?

These data are readily available, and we are surprised the government didn't even look at them before coming up with such a radical proposal on MAS.

The tools most used by consumers on the MAS website[9] are:

Mortgage Payments Calculator – 700,000 completions;
Mortgage Affordability Calculator – 580,000;
Stamp Duty Calculator – 460,000;
Pension Calculator – 225,000; and
Loan Calculator – 205,000

Other popular sections of the website last year were homes and mortgages (1.7 million page views), births, deaths and family (1.6 million) and works, pensions and retirement (1.4 million)[10].

16 Which content on the MAS website is it necessary to maintain because it is not provided elsewhere?

MAS data[11] shows the top three pages visited by consumers, who are mostly of working age, are pensions and retirement; budgeting and managing money; and homes & mortgages. Even if the new pensions guidance body covers the first of these, it is unclear where consumers will go to find impartial information and tools for budgeting and mortgages.

[9] Ibid, figures rounded to nearest 5,000.
[10] Ibid, relating to the last three quarters of 2014/2015 only and rounded to the nearest 100,000
[11] The figures come from a YouGov online tracking survey which measured web users from the passively measured Pulse panel from 01/01/2015 – 02/03/2016. Within YouGov's Pulse panel (consisting of approx. 12,000 people who are currently signed up to be passively measured), there were 1,687 unique users of the Money Advice Service website during that time (via desktop browsers and mobile). The percentages are based on the activities of these users. The panel is known to have a small bias towards older males and females, but MAS considers its data to be broadly representative of its site users.