THE FINANCIAL SERVICES PRACTITIONER PANEL

Smaller Businesses Practitioner Panel

Financial Services Authority

RESPONSE TO THE TREASURY SUB-COMMITTEE
INQUIRY INTO MONEY ADVICE SERVICE
01 JUNE 2012

1. Introduction

3.1 This is a joint response from the Financial Services Practitioner Panel and the Smaller Businesses Practitioner Panel ('the Panels'). Background on these two Panels is set out below.

3.2 The Financial Services Practitioner Panel was set up under the Financial Services and Markets Act to represent the interests of regulated firms in the work of the Financial Services Authority ('FSA'). It consists of 13 members drawn from a wide cross section of the larger regulated firms. The Smaller Businesses Practitioner Panel works as an independent Panel to advise the FSA on its policies and practices from the perspective of smaller regulated firms, and aims to complement the work of the Practitioner Panel. The Chairman of the SBPP sits on the Practitioner Panel, to ensure the viewpoint of smaller firms is represented in those debates.

3.3 Both Panels have taken a strong interest in the Consumer Education bodies, most recently the Money Advice Service ('MAS'). We have received briefings from this organisation regarding its work to date and future plans, and have had numerous conversations with the FSA on this topic.

3.4 Our view has always been that financially literate consumers are better consumers, and that working to improve the financial capability of the public at large is a laudable aim. We are therefore supportive of the MAS's statutory objectives to enhance the knowledge of the public of financial matters, and improve their ability to manage their own financial affairs. The MAS could further serve as an important link between customers and industry, through encouraging individuals to save more. As such, we also agree with the MAS adopting a role of directing the public to a variety of options and appropriate actions, including in the execution-only investment space.

3.5 However, although the Panels remain supportive of consumer education efforts we have concerns around the current plans of the MAS to achieve this. To date, the Panels have lacked confidence that the plans presented to us by the MAS have been detailed enough to justify the amount of investment asked for. We have heard (and hope) that more detailed plans have since been put in place, but would like to emphasise the importance of strong oversight and accountability of this body. For detailed commentary on our views, see our answers to selected questions posed below.

Executive Summary

1. *The Panels believe the current accountability mechanisms for the MAS are inadequate.* Greater involvement by an oversight body is required to ensure value for money.

2. *MAS should perform a gap analysis against the work of other consumer bodies to ensure it does not replicate existing work.* This should allow it to develop a clear and focused offering.

3. Once this has been completed, *specific targets and milestones can be set, against which the organisation can be measured.* This should be complemented by reference to external indicators.

4. Greater account needs to be taken of the impact on firms of yet further cost increases for MAS. Although industry as a whole are not opposed to contributing financially to consumer education efforts, where there are credible plans for success in place and effectiveness is appropriately measured, *cost increases must be proportionate and take account of other regulatory costs on firms, as well as economic conditions*.

2. What accountability mechanisms are in place for the MAS? Are they sufficient? How can the effectiveness of the MAS be assessed?

2.1 Under the current arrangements, the Board of the Financial Services Authority is responsible for oversight of the MAS. The FSA Board may approve or reject the MAS's proposed budget on an annual basis, but do not otherwise comment on the success or failure of this organisation to achieve its objectives. The MAS budget, unlike many other public bodies operating in the financial services space, is currently not made available for public consultation and there is little external transparency around how the MAS spends its money or measures its success.

2.2 The Panels have previously expressed concern that the current approach (or in the future, a model where the FCA takes on this role) may not be sufficient to achieve appropriate accountability and scrutiny for this body. While we do not wish to downplay the important role the FSA Board plays in this respect, we do not believe an approach where the only powers available to the FSA in its oversight role are to reject or approve the budget once a year goes far enough in ensuring accountability. We believe greater transparency is needed in this area and greater scrutiny and challenge from an oversight body on how MAS plans are developed and success is measured.

2.3 Measuring the effectiveness of a body such as the MAS is naturally challenging. It is difficult to find indicators that measure not just if more information has been made available to consumers, but whether they have engaged with this information in any meaningful way. We encourage the MAS, if it has not already done so, to perform a 'gap analysis' against other public consumer advice services to clearly identify where its involvement is likely to have the highest impact. Having conducted such a review, it should have clear and specific deliverables and milestones throughout the year, which should be reported on to an oversight body and ideally also externally.

2.4 Another way to measure the effectiveness is through using external measurements. These are not for us to prescribe, but there are a variety of potential indicators at a macro-economic level that could help illustrate whether the MAS has made a difference. For instance, we believe that the MAS should encourage individuals who have the capacity to do so to save money in the most efficient manner. One possible indicator of their success in this area could then be the uptake of tax-free savings products, such as ISAs. The MAS (as per its statutory objectives) should also enhance individuals' understanding of financial matters and their ability to manage their own affairs. The result of this should be a decline in the use of Claims Management Companies ('CMCs') to bring mis-selling claims (since it is our, as well as the FOS's belief, that these are primarily used by those who do not have a great understanding of financial matters.)

2.5 Although any use of such indicators should recognise that they are imperfect (for example, a decline in economic conditions could lead to a greater use of CMCs even though the MAS has been successful in educating a large number of consumers), nonetheless we believe referring to them could be indicative of progress and a useful complement to any other measures that may be developed.

2.6 We would also encourage the MAS to engage with industry in the development of new initiatives. As any eventual action by consumers (e.g. demand for savings products) will be delivered by firms, we would welcome consultation as to the practicalities of engaging with consumers and delivering better outcomes.

3. To what extent are the services provided by the MAS also provided by other organisations? How does the MAS compare to these organisations?

3.1 There are clear areas of cross-over between the Money Advice Service and other organisations, many of whom are taxpayer or industry funded. The Citizen's Advice Bureau for instance provides free advice relating to money management and financial products and receives taxpayer funds as well as industry support. They already have an extensive physical network (394 bureaux across England and Wales at time of publication) where consumers can get face-to-face advice, as well as a developed online proposition. There are also bodies such as Which?, who provide information and impartial financial advice and a range of well-developed free online offerings including moneysavingexpert.com providing guidance and information on a range of topics including mortgages and banking.

3.2 In the debt advice space, there is a broad range of organisations, including not only the above but also organisations such as the Consumer Credit Counselling Service and the National Debt Line who provide free debt advice. In addition to this, help and guidance for debt is also available through contacting banks themselves.

3.3 Work of the Money Advice Service therefore inevitably threatens to duplicate existing services. Having multiple 'competing' organisations in this area offering similar advice to overlapping groups of people would be wasteful. Given that the bodies providing the advice are often industry, taxpayer or charity funded, there is an opportunity to consolidate, improve outcomes and reduce costs. We are aware that the MAS's remit for debt advice will include not just provision but also the coordination of debt advice. Insofar as this leads to greater efficiency it should be welcomed, but there is a serious risk that the MAS will simply add to existing provisions, rather than focus on areas where they would have the greatest positive impact.

3.4 This does not mean that the Money Advice Service cannot carve out a distinct offering which adds value to what is already made available by other organisations; but it does mean that it is key for the MAS to ensure they do not unnecessarily replicate activities of other bodies and, instead, focus on investing in areas where they can add value. This reinforces the argument made above that there needs to be clear and detailed plans in place, resulting from a credible assessment of the current offering and key gaps, for the MAS to ensure it is focused in areas where its resource spend will receive its highest 'bang for buck'.

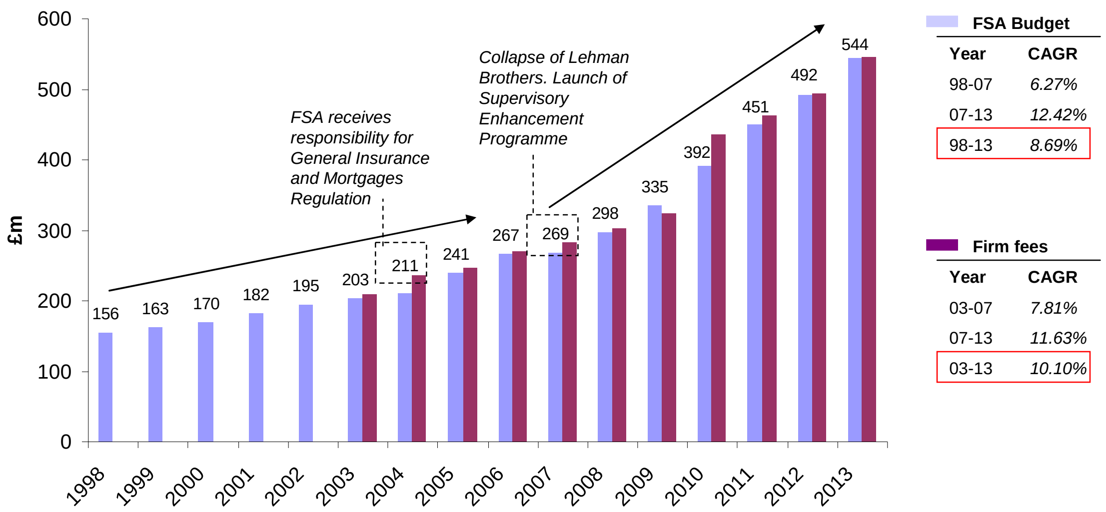
4. How appropriate is the model, using fees raised from financial services firms regulated by the FSA, by which the MAS is funded?

4.1 Industry as a whole remains strongly supportive of improving the financial capability of the general public. It is not opposed to contributing financially to these efforts, but we are keen to ensure that value for money can be monitored and effectiveness appropriately measured, and that any cost increases are proportionate and take account of current economic conditions.

4.2 Although industry is not opposed to contributing, there are concerns around the sustainability of constant cost increases for firms in a very challenging economic climate. The proposal to add debt advice to the Money Advice Service whilst withdrawing government funding for financial education has significant implications for an industry which is experiencing severe cost pressures. It also needs to be seen in the broader context of regulatory costs as a whole, which have been rising especially sharply since the start of the economic crisis.

4.3 For instance, the FSA's costs by themselves have experienced sharp and continual increases, with the budget increasing by c.12.4% per year since 2007. The graph below was compiled by the Panels to illustrate some of the direct regulatory costs to the industry. The Panels recognise that some of these cost increases are due to scope changes. Nevertheless, even excluding regulatory reform and indirect costs, it demonstrates a significant increase in FSA budget and firm fees over time

FSA* growth in budget and firm fees, 1998-2013



*Note – Figures prior to 2001 reflect the actual budgets of the FSA and predecessor bodies as appropriate. The years reflect the FSA's financial years, with 1998 being the 1997/1998 financial year. Fees reflect actual fees, with the exception of 2013 which represents the Annual Funding Requirement. Figures do not include the regulatory reform programme, but do not otherwise generally control for scope changes for the FSA. Differences between the budget and firm fees are primarily due to scope changes. Some firms may have received a deduction on their fees invoice as a result of financial penalties collected the previous year.

Source: The Financial Services Practitioner Panel analysis

4.4 Of course FSA regulation is only one part of the direct regulatory costs firms pay. Funding the MAS is another key cost, as is the Financial Services Compensation Scheme and the Financial Ombudsman. All of these organisations perform important functions in maintaining confidence in the financial services industry. However, to date, none of these organisations appear to take into account the existing costs and levies to industry from other bodies when setting their budgets.

4.5 The inclusion of debt advice for the Money Advice Service would effectively double this organisation's operating budget. This budget is already significant at over £40 million per annum, and we are concerned that there has not been a thorough assessment of the impact on firms of a doubling of industry's contribution to this body. As such, although we believe it is appropriate for industry to continue to pay for at least part of consumer education initiatives where there are credible plans in place and strong accountability, there needs to be much greater cost control for these bodies and stronger demonstration of value-for-money.