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13 February 2017

Dear Sir/Madam,

## **Joint HMT and DWP Public Financial Guidance Review: Consultation on a Single Body**

This is the response of the Financial Services Consumer Panel (the Panel) to the joint HMT and DWP consultation on a single financial guidance body (SFGB).

The trend away from direct benefit pensions, and pensions freedoms, mean that more people are taking financial responsibility for their own retirement. At the same time, financial products, even apparently straightforward ones like general insurance, are becoming more complex. Efforts by policymakers over the years - CAT standards, stakeholder products, the now-abandoned simple products - have had no impact on opaque pricing and traps for the unwary in the 'small print': industry has no interest in selling products and services that consumers can readily understand. Mis-selling and other poor conduct continue. Consumers cannot – and do not – trust the industry to act in their interests.

Financial services markets do not work well for consumers. It has become increasingly fashionable for the industry to blame this on consumers for not being financially capable enough. While financial capability is an essential life skill, much like using IT or being able to drive a car, it is neither desirable nor realistic for consumers to become financially expert enough to cope with the jargon and incomprehensible terms and conditions the industry throws at them. Moreover, financial capability is not just about buying products – it is about managing money day to day, planning for the future, managing risks. Often financial products are useful in these activities, sometimes not.

In light of this, the need for a public-facing, impartial, sales-free, single source of money guidance for people of all ages has never been greater. Commercial organisations cannot provide this.

There is also a need for the SFGB to work closely with the FCA, not just to reduce duplication, but more strategically. The FCA could make more use of conduct regulation to prevent overindebtedness occurring in the first place, lessening the future burden on the SFGB. Delivering the UK financial capability strategy would also benefit from closer working. Conduct regulation and raising levels of financial capability are complementary. According to MAS, one in five people cannot read a bank statement – is that because they lack basic skills? Or because bank statements are too confusing for some people? Who decides what is the best way of addressing this problem?

We believe the MAS brand should be retained. While the initial marketing spend on the brand may have been excessive it has now built up significant 'value'. We understand the majority of consumers contacting MAS (65%) do so through 'organic' search. That is, MAS does not pay to raise its position in the search, consumers find it naturally. It takes a significant amount of

time and resource to build such an organic online presence and demonstrates the strong recognition MAS has now built with consumers. More than 8.4 million consumers contacted MAS in 2014-15 seeking information – a 90% increase on the previous year<sup>1</sup>. In 2015-16 there were 26 million web visits to MAS and 3.6 million people completed one of the MAS tools. Much of this help for consumers could be lost if the brand is lost.

On the whole we believe the scope of the new organisation, as set out in the consultation, is appropriate. However, we would like to see its reach extend to the self-employed and microbusinesses. Many smaller business owners have the same financial needs as do individual consumers, and often run their business from their personal current account, or mortgage their home to raise finance. Many are not saving in a pension. While there is plenty of advice available for start-ups (though not always easy to find); and Business Debtline can help those with financial problems, we believe there is a gap on wider money matters. Smaller firms struggle to access appropriate guidance and they have been the victims of some of the more egregious mis-selling scandals (LIBOR, Forex) in recent times, so can clearly be vulnerable. The SFGB could provide a source of valuable guidance and information which might go some way to mitigate against such instances happening in the future.

Our answers to the individual questions follow.

Yours sincerely

Sue Lewis  
Chair  
Financial Services Consumer Panel

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<sup>1</sup> 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](https://masassets.blob.core.windows.net/cms/files/000/000/212/original/MAS_ANNUAL_REPORT_2015_online_version.pdf)

## Questions

### **Q1. Do people with protected characteristics under the Equalities Act 2010, or any consumers in vulnerable circumstances, have particular needs for public financial guidance or difficulty finding and obtaining that guidance?**

We would note that everyone is potentially vulnerable at some point in their lives, through a change in circumstances such as losing a job or partner, or suddenly acquiring what is for them a significant amount of wealth. This could be cashing in a pension, a redundancy payment, an inheritance or even a lottery win. People whose main assets are in their home are also vulnerable when they come to release some of their equity. At these points, people have a particular need for help or advice. This is in addition to people who fall into one of the 'traditional' vulnerable groups, of which mental disability or illness is probably the most relevant. We also believe particular consideration should be given to ethnic minorities, as they are statistically more likely to be self-employed and therefore less likely to be able access advice networks through their employer.

### **Q2. Do you agree that these areas capture what the broad role of the SFGB should cover?**

Yes, in broad terms although it is hard to comment definitively without knowing the precise legislative basis of the new organisation.

On debt advice, we believe the SFGB should be mandated to take a leadership role, to promote better collaboration across the debt advice sector, to get better outcomes for people in debt. We do not believe the SFGB should be precluded from directly providing debt advice. The current commissioning and funding model may be adequate now, but not in the future. The SFGB should also look at the funding model for debt advice, and widen the number of potential funding partners. The current 'closed shop' of six potential bidders militates against value for money.

It is also important that the SFGB has an explicit remit to ensure that the standards of the debt advice provided by the organisations it funds are not lower than those provided by firms that have gone through the FCA's rigorous authorisations process. For example, Citizens Advice bureaux were 'grandfathered' in by the FCA when it took over the regulation of debt advice. Now that the FCA regulates debt advice agencies, the SFGB needs to examine whether its debt advice standards are necessary in addition to the FCA's rules.

We believe the government should ensure that the standard of guidance TPAS provides is maintained. TPAS advisers are required to have several years' industry experience and are capable of providing guidance on a wide range of complex issues and needs relating to all aspects of pensions and retirement without a script. The SFGB should learn from problems with the current model of pensions guidance – e.g. the difficulty of getting advice about debts and welfare benefits. It will be vital to increase take-up of the guidance guarantee and reverse the decline in shopping around for retirement income products. The recently announced Pension Advice Allowance may not help as it is likely to encourage people to stay with their existing provider.

The SFGB should also encourage people to engage much earlier with guidance about their options at retirement. Research shows that some people contact Pension Wise when they have already settled on a course of action and can be unwilling to consider other (potentially better) options.<sup>2</sup>

While it is clearly in consumers' interest to get information on how to avoid financial fraud and scams, the SFGB will need to work closely with the FCA and the Pensions Regulator to avoid overlap and consumer confusion.

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<sup>2</sup> Janette Weir, *New Choices, Big Decisions. Exploring Consumer Decision Making and Behaviours under Pension Freedom and Choice* (London: Ignition House, 2016)

Provision of information for people on wider money matters; and coordinating and influencing efforts to improve financial capability, are vital areas for the SFGB. We think the SFGB should have clear leadership responsibility rather than simply "coordinating and influencing" financial capability. It is also important that the work of the SFGB complements the proposed change to the legal definition of financial advice.

We also believe that the scope of the SFGB should be widened to include the self-employed and microbusinesses. Many smaller business owners have the same financial needs as do individual consumers, and often run their business from their personal current account, or mortgage their home to raise finance. Many are not saving in a pension. While there is plenty of advice available for start-ups (though not always easy to find); and Business Debtline can help those with financial problems, we believe there is a gap on wider money matters.

**Q3. Do you agree that the SFGB's financial capability initiatives should focus on priority groups such as those who are most in need of support to build resilience?**

It is hard to say without knowing what the SFGB's statutory objectives will be. MAS's objectives are: to enhance the understanding and knowledge of members of the public of financial matters (including the UK financial system); and the ability of members of the public to manage their own financial affairs. This is not the same as building resilience, or encouraging people to save. Financial resilience is a public policy issue, and financial capability might not be the most efficient way to achieve it. Help to Save, for example, should build resilience and encourage a savings habit. This is a good thing, but it will not, of itself, increase capability. The Government needs to be clear about what it is trying to achieve here, and what should be the respective roles of the SFGB and other public bodies.

MAS has developed a rigorous evidence-based segmentation analysis, which is helpful for prioritising resources if it is clear what objectives it is trying to meet. These should be independent of political 'flavours of the month', such as the current focus on 'just about managing' individuals and households.

Assuming that the SFGB has the job of increasing financial capability, it needs an evidence-based action plan to do this for everyone that needs it, not to make subjective judgements about who is most "in need". This should include people who may appear wealthy but are vulnerable for a variety of reasons. Work carried out by Europe Economics for MAS on the economic impact of financial capability suggested that measures to improve financial capability should primarily be focused on making those with lower capability less vulnerable (regardless of who they are)<sup>3</sup>. One in five people still cannot read a bank statement<sup>4</sup>. We have never seen a MAS Business Plan that said how MAS was going to tackle this very basic need. The SFGB needs a much sharper focus.

**Q4. Do you agree that the SFGB should have a strategic role, working with the financial services and pensions industry and third sector organisations to improve financial capability?**

Yes, but we think the SFGB should be accountable for delivering the financial capability strategy, even if it does not deliver directly. "Coordination and influencing" blur public accountability.

The Panel has previously said<sup>5</sup> that MAS should set out the key measurable changes in financial capability that it aims to achieve, and use KPIs that clearly hold it accountable for delivery of increased financial capability. This also applies to the SFGB.

**Q5. How might the SFGB develop its understanding of what works and usefully contribute to sector wide research?**

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<sup>3</sup> Europe Economics, *The Economic Impact of Improved Financial Capability, Final Report* (2016).

[https://masassets.blob.core.windows.net/cms/files/000/000/569/original/EE\\_Study\\_on\\_Economic\\_Impact\\_of\\_Improved\\_Capability\\_4-Nov-2016\\_-\\_Final.docx](https://masassets.blob.core.windows.net/cms/files/000/000/569/original/EE_Study_on_Economic_Impact_of_Improved_Capability_4-Nov-2016_-_Final.docx)

<sup>4</sup> Consultation on the Money Advice Service's 2016/17 Business Plan.

<sup>5</sup> [https://www.fs-cp.org.uk/sites/default/files/ffscp\\_response\\_mas\\_business\\_plan\\_2016-2017.pdf](https://www.fs-cp.org.uk/sites/default/files/ffscp_response_mas_business_plan_2016-2017.pdf)

We support the research capability that MAS has developed and, in particular, its consumer segmentation model. This should be owned and maintained by the SFGB. The SFGB will not be able to commission research effectively unless it has a good understanding of how well different approaches work. It needs to be a 'centre of expertise' in financial capability, even if it does not conduct research itself. The SFGB should build on this, so the "what works" initiative is a credible research hub. However, the SFGB should avoid reinventing wheels. It can learn from overseas experience, for example, the OECD's International Gateway for Financial Education, which MAS has tended to dismiss as 'not relevant' to the UK market.

The SFGB should ensure it keeps up to date with new technologies in order to better understand consumers' decision-making processes. Understanding the neuroscience behind making a decision can be helpful in designing effective interventions.

**Q6. In what ways could the SFGB co-ordinate and add value to the provision of financial education?**

Although financial education is a compulsory subject in the national curriculum for secondary schools in England, it remains under-resourced and not consistently available<sup>6</sup>. The Personal Finance Education Group (pfeg - now part of Young Enterprise) has been providing support and learning resources to schools for many years but teachers find that a lack of time and their own lack of financial know-how are limiting factors. There are many organisations involved in financial education projects outside the school curriculum. It is not clear how successful they are or, if not successful, why not. The SFGB could play an important role in assessing the full picture of financial education in schools and non-government projects, assess what works and what does not work, and how to overcome the barriers to success.

**Q7. Are there other delivery channels that the SFGB should consider that would be effective for delivering to consumers?**

The consultation paper lists digital, telephony, web chat and face-to-face channels. We are pleased to see recognition that there remains a role for face-to-face communications for those who need it.

The Government should not be prescriptive about which channels the SFGB should use. As evidence evolves on the best ways to reach different people at particular times in their lives, the new organisation should be free to respond with whatever delivery channel is the most effective. It will need to be flexible enough to respond to the possibilities of open banking and data aggregation. Direct paid-for marketing may be needed in future to reach some groups; the Government should not rule it out now. Conversely the SFGB may be able to piggyback on strong brands through working in partnership with other organisations.

We remain concerned that, in the transition to the new SFGB, some of the current on-line assets held by all three predecessor bodies, but particularly MAS, may be lost.

**Q8. How should the SFGB ensure that it engages consumers at the right time for them?**

This is one of the questions that the "what works" research programme needs to address. MAS, and the SFGB, can also build on the work – as yet unpublished – of the Treasury/FCA Financial Advice Working Group, set up to implement some of the recommendations from the Financial Advice Market Review.

Having an industry-leading, mature, and well-optimised website with well-targeted language is an important first start, so that people who seek information can find it easily. We think it is important to keep the Money Advice Service brand, so as not to lose the significant web and

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<sup>6</sup> All Party Parliamentary Group on Financial Education for Young People report, May 2016 (<https://www.pfeg.org/sites/default/files/APPG%20on%20Financial%20Education%20for%20Young%20People%20Final%20Report%20-%20May%202016.pdf>)

brand value that is currently held. Otherwise some consumers will lose out from the creation of the SFGB as it would be harder to find with a brand change. Another major risk of losing the MAS brand is that a commercial organisation could take up the brand and trade in on consumers' trust.

The SFGB should also make sure that the brand values associated with the existing web content are reinforced on social media, both through having a presence on existing platforms and monitoring trends.

**Q9. Do you agree that the SFGB should be able to exercise some flexibility in the way funding is directed?**

Yes.

**Q10. Would these proposals have any impact on the delivery of public financial guidance in Scotland, Wales or Northern Ireland?**

**Q11. Do you have any other comments about the proposed delivery model and consumer offer?**

We would like to emphasise the need to get the statutory objectives of the SFGB clear, to ensure it is held to account for achieving those objectives, and the need to focus the financial capability strategy on the least financially capable. The issue of commissioning versus direct delivery is a second order question, and one that the SFGB should have the flexibility to decide for itself. Finally, we would emphasise the need to manage transition carefully, so that consumers are not lost along the way.