Response to public financial guidance review proposals

The Money Charity is the UK's leading financial capability charity.

We believe that being on top of your money means you are more in control of your life, your finances and your debts, reducing stress and hardship, and that this increases your wellbeing, helps you achieve your goals and live a happier more positive life as a result.

Our vision is for everyone to be on top of their money as a part of everyday life. So we empower people across the UK to build the skills, knowledge, attitudes and behaviours, to make the most of their money throughout their lives.

We believe financially capable people are on top of and make the most of their money in five key areas:

- Planning (including budgeting)
- Saving
- Debt
- Financial services products
- Everyday money (including wages, cash, bank accounts)

Introduction

1. We welcome many of the recommendations set out in the recent public financial guidance review (PFG). A model based on commissioning the provision of debt advice, money guidance and financial capability services has many strengths and will harness effectively the expertise of organisations working in these areas.

2. There has never been a time when personal finances have been as complicated as today, and championing financial capability ought to be something the Treasury and DWP are putting significant leadership and resources into. However, we fear that the laudable intent outlined in the PFG proposals will be undermined by the suggested structure and remit of the money and pension guidance bodies.

Key points

A single money guidance body

3. Our central concern is the intention to create two separate organisations and split delivery between money and pension guidance.

4. With the move towards greater individual financial freedom and responsibility, decisions about retirement provision and personal finance are becoming inseparable. And with the direction of pension reforms and the Lifetime ISA (LISA), this is driven to a large degree by government policy. The Treasury and DWP should therefore embrace holistic money guidance, rather than artificially separating financial issues that are intrinsically linked.

5. ***We therefore call for a single money guidance and financial capability body able to address holistic financial needs including retirement provision.***

6. We make this call for the following reasons:

   - Decisions about retirement provision cannot be separated from budgeting, savings, debt, rent or mortgages – i.e. money guidance
   - Pension reforms such as the LISA mean that the accumulation stage cannot be looked upon in isolation from an individual's wider financial situation
   - Specific pension guidance will only be of use for a limited cohort of people in the decumulation stage who have no other savings or any debts
   - Inevitable hand-offs between providers will deter customers

- There will be inevitable duplication and resources will not go as far split between two bodies

7. A single organisation will not only avoid the pitfalls set out above, but will allow much more to be achieved with the same resources. This includes a broader and more holistic service and the building of one brand that can provide money guidance throughout life. Limited resources would be better spent holistically, rather than building and marketing a brand and website dedicated only to pensions.

Maintain board objectives, focus on leadership and oversight

8. **Narrowing the objectives is learning the wrong lessons from the past**. While we recognise that the broad objectives of MAS did allow leadership to drastically change direction, we do not support narrowing the objectives so that they prescribe *how* the new body can act. Instead, objectives should be set as *outcomes* which can be met with strategic flexibility.

9. The danger of setting means, not ends, as objectives is that the new body will be hamstrung and unable to respond to new challenges as they arise. Key to solving the problems of MAS is leadership and oversight, rather than narrow and prescriptive objectives. Inevitably the debt, pension and financial capability environment will change, and without access to a mix of delivery models, the new body will be limited in its response.

A mixed delivery model

10. Restricting funding to local projects limits the universal national remit of the new body and poses scalability issues. **We recommend that the new body adopts a mixed delivery model,** able to commission projects to fill gaps, but also to coordinate providers and deliver some services directly.

11. We make this recommendation because the need identified for a *'national information and guidance service for personal finance'* in the 2008 Thoresen Review[1] still exists. If the new body is strictly limited to commissioning projects to fill narrowly defined gaps, it will leave one large gap in place.

A supermarket, not a high street

12. **A huge 'gap in the market' is a single place to go** for holistic money advice and information, not just specific missing content. To use an analogy there is a high street full of shops with guidance on specific financial issues - if you are

[1] Thoresen Review of generic financial advice: final report

already capable and know exactly what you need, but no supermarket where a person with ill-defined needs for financial guidance can go.

The new body needs a brand

13. It is not just the proposed objectives that may undermine the new body's ability to deliver nationwide financial guidance, the rejection of any public facing brand will mean that individuals and referring organisations will find it more difficult to engage with their locally commissioned services. We are not calling for continued large scale advertising spending, but there **needs to be a brand** that brings together the services under a single, accessible roof.

14. Considerable resources will be spent promoting the pension guidance brand, meaning a single body would be able to maintain a brand without additional resources.

Value financial capability as much as debt

15. The Money Charity also has concerns that ring fencing debt, and delivering pensions advice separately means that **financial education and capability will always be secondary** concerns. Ring fencing these areas while not doing the same for others is a clear signal of prioritisation from the government. Inevitably, more than just money will be focused on debt and pensions, leadership and human resources will go in that direction in the belief that the success or failure of the new bodies will be measured on these areas, even at the expense of financial capability and education.

16. While there may be good reasons for prioritising debt advice, there needs to be clear parity of esteem for the other areas if the new bodies are not to become seen as delivering pension guidance and debt advice with a few smaller side projects in financial capability and education. This would leave significant and nationally important programmes such as the push for financial education in schools[2] on the margins and without the strong champion that is necessary to drive them forward.

This may be the last chance to get it right

17. With the mixed legacy of MAS, it is vital that what replaces it works. **Financial capability has never been more important than it is today**. It is not so long ago that the majority of people on low incomes were paid weekly, defined benefit pensions were the norm[3], and annuities were the only option for

[2] APPG on Financial Education for Young People -Final Report - May 2016.pdf
[3] http://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/pensionssavingsandinvestments/bulletins/occupationalpensionschemessurvey/2015-09-24

defined contribution pension pot holders. In short, the financial situations people faced were a great deal simpler than they are today.

18. It is government action that has driven much of this change, and continues to do so with the introduction of changes such as Universal Credit, the Lifetime ISA and the secondary annuity market. So this should not be a time when the government is shrinking and restricting the financial capability body.

19. Financially capable citizens able to make their own financial choices and decisions are vital to many of the government's recent reforms. This can only be a reality if the organisation replacing MAS is structured in a way that gives it a chance to succeed. **If the new body fails, it risks discrediting the concept** of action on financial capability at the very time the country most needs it.

Secure leadership in advance of 2018

20. Regardless of how the new bodies are structured, **new leadership** is key to setting the new body's strategic direction. With a medium term leadership change on the horizon, The Money Charity fears that the next two years of financial capability services and research will be lost. Uncertainty may also undermine the momentum that the Financial Capability Strategy for the UK[4] has built since its release. Leadership should be appointed as soon as possible, not in April 2018.

Full answers to the consultation questions can be found below.

[4] http://www.fincap.org.uk/

Q1. Are there any specific guidance gaps in the current pensions guidance offering that you think the new body should fill?

21. A pensions body seeking to offer guidance wholly on the subject of pensions inevitably leaves wide gaps from the point of the consumer. Only for a small group of people with uncomplicated finances, approaching the decision about what to do with their defined contribution pot, will guidance about retirement provision not touch upon a much wider array of financial concerns. For everyone else, far more holistic money guidance will be necessary.

22. If we imagine people in their 20's and 30s wanting to talk about retirement provision, a meaningful conversation cannot be had without touching on budgeting, saving, borrowing, property, and much else. Government policy itself has bolstered this - with the introduction of the LISA, pensions are becoming indistinct from other forms of saving. So too with clients in significant debt, approaching retirement with a mortgage still to pay off or with alternative forms of income - discussions about pensions have to take in finances as a whole.

23. A pensions body, standing apart from money guidance services must either fill these gaps by duplicating money guidance work, deliver only incomplete pension guidance, or put consumers through a series of complicated and off-putting hand offs to money guidance services.

Q2. Are there any pension-related topics that shouldn't be included in the remit of the new pensions body?

24. Ever more so, saving for retirement is a part (albeit a large one) of people's wider financial planning. A pensions body should have a remit wide enough to take in people's whole financial lives – and should be merged with the money guidance body.

25. The experience in New Zealand of the Commission for Financial Capability[5] shows that in order to be effective, a pensions body will ultimately have to broaden its remit to general money matters. Starting out as the Retirement Commission, a body set up specifically to help New Zealanders provide for themselves in retirement, its offering grew to financial capability services for the entire population. This change took place with the realisation that only by helping people to be financially capable throughout life could better retirement outcomes be achieved. Reflecting on this evolution and eventual name change, Retirement Commissioner Diane Crossman claimed:

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[5] http://www.cffc.org.nz/

'After years of being known as the Retirement Commission, we are settling in well with our new name, which far better reflects what the Commission does and its principal goal of improving the financial wellbeing of New Zealanders throughout life so that they are better prepared financially for retirement. The Commission's new name formally recognises the importance of financial literacy to New Zealanders ***and emphasises its link with their retirement income*** *(our emphasis)'*[6]

26. The recognition in New Zealand that financial capability and retirement provision is inextricably linked should be a lesson for us, showing that any new pensions body in the UK should have as wide a remit as possible – and will ideally be a part of a single money guidance body.

Q3. Will these objectives focus the activities of the new money guidance body sufficiently to allow it to improve consumer outcomes?

27. Narrowing the objectives so severely may restrict the action that the new body's leadership can take in future, and learns the wrong lesson from history. Unlike MAS' objectives, those proposed for the new guidance body are not outcomes but means – they don't dictate what the body should aim to achieve, they dictate how it should operate.

28. The potential downside of this is that it prevents strategic flexibility and sets up a body that cannot change its methods to meet priorities which will inevitably change over time. Only objectives that set desired outcomes and allow a mixed model of delivery will be able to respond to the unforeseen challenges of the future.

29. It is also difficult to see how a body limited to identifying specific gaps in the market and commissioning services to fill those, can provide the holistic money guidance the Thoresen Review identified in 2008[7] that is clearly missing from the current market.

30. The Money Charity does not believe that MAS' objectives were the key impediments to success. Certainly, the wide objectives set out in the Financial Services Act 2010 did not prevent MAS' leadership from embarking on a strategy that heavily prioritised a 'digital first' public brand at the expense of financial capability projects. But this strategy was simply a choice made by MAS' former leadership, not dictated by the original objectives.

[6] http://www.cffc.org.nz/assets/Documents/CFFC-AR-Annual-Report-2012.pdf
[7] http://webarchive.nationalarchives.gov.uk/+/http:/www.hm-treasury.gov.uk/media/8/3/thoresenreview_final.pdf

31. Instead of setting severely restricted objectives that dictate exactly what the new body can do, a broader set of objectives should be retained. The key to ensuring the new body improves consumer outcomes is to get the right leadership and direction in place.

Q4. What role do you think the new money guidance body should have in providing research?

32. Moving to a commissioning model requires a strong research function. 'Identifying gaps' in the market will require significant research, evidence and public decision making processes. Commissioning will have to be evidence based, setting out clear and well justified objectives for bidding organisations. In order for this to happen, the research functions of MAS will need to be strengthened and refocussed.

33. The process of identifying gaps should be public and open to consultation. Groups working in the financial capability area have considerable expertise that should be brought into an iterative process of gap identification. In its business plans, the new body should map provision along with the gaps that it is seeking to fill and consult on those.

34. MAS has significant sunk costs in programmes such as the evidence hub, segmentation analysis and research feeding into the financial capability strategy. Many of these have been successful and will need the new body to champion and build upon them in order not to be lost.

Q5. Would limiting providers of debt advice to FCA authorised firms rule out any types of provider?

35. The Money Charity believes that free debt advice providers dealing with those who have fallen into problem debt and offering IVOs, DMPs and DROs should be FCA regulated.

36. However, there is a large cohort of people in debt who are not in the position where they would want to approach an organisation like StepChange, but would want some advice or guidance to improve their financial situation. As The Money Charity argued in the response to the Financial Advice Market Review, regulation prevents non-regulated providers from operating in this space[8].

37. Currently, MAS and the organisations it commissions have a carve-out from this regulation and can offer financial guidance to people with debts. We would encourage and expect this arrangement to remain in place with the new

[8] http://themoneycharity.org.uk/media/The-Money-Charity-response-to-financial-advice-market-review.pdf

body. However, as we move to a gap filling, commissioning based delivery model, success will rely on organisations working in this space independently. We call upon MAS and the new body to help clear up regulatory uncertainly and create a positive space for non-regulated debt guidance.

38. The current rules governing what a non-regulated financial advice provider can and cannot say are not written down in a single place. If a youth worker (financial educator, counsellor, blogger…) wants to give advice to an individual or group she must look in CONC for what she cannot say on debt issues and have a working understanding of COB if she wished to advise on investments. If she wanted to help an individual with setting a budget she would not, in theory, have this kind of regulation to deal with, however she must be very careful of discussing any debts an individual might have in that budgeting process.

39. This poses two dangers for this kind of alternative provider and those they serve:
    a. That they simply ignore all regulation, placing themselves in legal risk and those they advise in possibly detrimental situations.
    b. They see the complicated and inconsistent regulation and choose not to offer advice, denying consumers the actionable recommendations they need.

Q6. How could the new money guidance body work with the debt advice providers most effectively to ensure that their expertise is captured and informs contract design? + Q7. How do organisations currently monitor outcomes? Do you have any suggestions for the outcomes which should be monitored? + Q8. How could "hand off" arrangements be most effectively built into contracts?

40. The Money Charity does not work in the debt advice space and does not have specialist knowledge in this field.

Q9. How should the new money guidance body seek to understand the gaps in the provision of money guidance?

41. Gaps in provision should not be seen as a narrow question of whether provision on a certain topic exists somewhere. For almost every specific financial need a consumer has, some form of information or advice will exist somewhere. Instead, gaps must be understood from the point of view of consumers with complex financial needs. This means thinking about gaps not only in content, but in how services are linked to one another and are accessible to consumers.

42. A helpful analogy is a high street versus a supermarket. If you were to look at a town with a butcher, grocer, fishmonger, hardware store etc, there may not be any 'gap' in so far as everything that consumers want would be available somewhere. If a consumer knows exactly what they want and which shops to go to, they are perfectly well provided for. However, if their needs are not strictly defined, they don't know precisely what they are looking for, or they find it difficult to access certain channels of guidance, the 'gap' in the market is a single place where they can go, browse and get everything they might need.

43. Particularly for the technologically enabled and financially capable, there are relatively few gaps in provision of guidance, provided consumers already know what they are looking for. There are excellent resources for finding the right credit card for air miles or comparing utilities on price comparison sites or Money Saving Expert. But if a consumer seeks guidance without a specific product or aim in mind, there are very few places they can go other than MAS that can address their financial needs as a whole.

44. The government has recognised that this is a gap in the past – the 'financial healthcheck' announced in 2010[9]. The healthcheck would:

    "help families and individuals get into the habit of taking a thorough look at their finances. It will show them where they are most at risk and it will show them how they can regain control and plan for the future. The healthcheck will give people a 'prescription' that will offer clear advice on what they can do to improve their financial situation now and for the years ahead."

    At the time, this was a welcome recognition that for many families, the financial advice need they had was not any specific gap in the market, but for a holistic view of their finances and a prescription for improvement. This insight needs to be maintained when looking for gaps in the market.

Q10. Is the planned focus on local and digital financial capability raising projects the right one?

45. The Money Charity welcomes a model based on commissioning the provision of debt advice, money guidance and financial capability services. This will avoid duplication and harness efficiently the considerable expertise and resources of organisations working in these areas. This will allow the new body to act in a fleet-of-foot manner, to fill gaps in the market.

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[9] https://www.gov.uk/government/speeches/speech-by-the-financial-secretary-to-the-treasury-mark-hoban-mp-at-the-consumer-financial-education-body-conference-cambridge

46. However, limiting the focus to locally based projects will not allow the new body to address the universal need for better financial capability. Undoubtedly there will be successful projects in isolation, but there always have been those. A financial capability programme built exclusively around commissioning local projects will face the same problems with scaling-up success that we are currently in.

47. If we jump forward a few years it is easy to imagine a patchwork of local services, some of which are working well when others are not. The programme level analysis may conclude that, while there are some good programmes, the entirety has not been successful. The new body should work from the beginning to scale and universalise successful projects – which means not limiting itself to local projects or a single form of delivery.

48. There is also a significant risk in prioritising digital methods. While technology is undoubtedly a growing part of how people interact with their finances, there are still many people who manage their finances on paper. As stated above, the section of the population who are technologically and financially capable face relatively few gaps in financial guidance. Any ‘gap in the market’ based approach should deal with this.

Q11. What should be included in the partnership agreement between the two bodies, and how could hand-offs best be specified? + Q12 Do you have any other comments on the proposed model?

49. We have argued above that there should be a single body and therefore no partnership agreement. In the proposed model which arbitrarily ring-fences fundamentally interconnected financial guidance needs, there will be unavoidable and off-putting hand-offs.

50. The most damaging hand-offs are those which are made blind, without knowing the service a person is being referred to. If this model is to be pursued. The key to making this model as functional as possible is joint planning and frequent contact between staff at every level. A pensions adviser will need to know in detail the local financial capability and money guidance programmes in a person’s area. The alternative is that blind hand-offs leave people frustrated and trying to deal with inappropriate services.