



# *Policy Paper:* *Financial Capability for* *Workplaces and Communities*

**Many UK adults have low financial capability or are pursuing life goals that would benefit from improved ability to manage money. Accessing information and developing the appropriate knowledge, skills and behaviours can be challenging. The Money Charity believes that it is through workplaces and communities, where adults already associate in cohesive groups, that the best opportunities exist for improving financial capability.**

## **What are the issues?**

17% of UK adults self-rate as having low financial capability,<sup>1</sup> while other tests suggest a rate as high as 40%,<sup>2</sup> with many people challenged by aspects of everyday financial life such as interpreting complex financial offers, budgeting and saving.

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<sup>1</sup> Financial Conduct Authority 2018, The financial lives of consumers across the UK, pp 82-83. Available at: <https://www.fca.org.uk/publication/research/financial-lives-consumers-across-uk.pdf>

<sup>2</sup> Money Advice Service 2015, Financial Capability in the UK, pp 15 and 24

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Over eight million people in the UK face problem debt,<sup>3</sup> arising often from low income or income shocks, but also from behavioural biases and deficits in money management skills.<sup>4</sup>

To improve their financial wellbeing, people need to invest for the long term – for example, buying a house, joining a pension scheme or enrolling in further education – at the same time as they budget for day-to-day and recurring annual expenses. The ‘pension freedoms’<sup>5</sup> and the fragmented state of the UK’s pensions system mean that significant long-term financial decisions continue into later life.

How to anticipate and manage unexpected income shocks (from redundancy, illness, accident or other disruptions to normal working life) is another area of need. Research shows that many UK adults have zero or very low savings, so are vulnerable to any interruption to income. Debt charities report that a shock to income is often the trigger of a downward debt spiral.<sup>6</sup>

One issue that needs to be addressed is the advice/guidance boundary. Under current rules, financial capability charities are prevented from giving general advice tailored to individual circumstances, even where this flows naturally from financial capability work. It should be possible to give general advice tailored to individual circumstances without crossing the threshold into regulated financial advice.

A further challenge is quality assurance and consistency. At present there are many providers of financial capability/wellbeing activities and money advice, but no UK standards for delivery or practitioner competence.

The Money Charity welcomes the launch of the Money and Pensions Service (MAPS),<sup>7</sup> whose job is to lead a financial capability strategy for the whole of the UK. According to MAPS, financial capability is a function of:

“...people’s skills, knowledge and mind-set and also the environment or ‘ecosystem’ in which they make financial decisions. This context includes, for example, poverty and low/variable pay; the changing structure of working lives; major changes to the way people access and manage working-age benefits

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<sup>3</sup> National Audit Office 2018, Tackling Problem Debt. Available at: <https://www.nao.org.uk/report/tackling-problem-debt/>

<sup>4</sup> See, for example, Student Diagnostic Tool – A YouthSight Report for the Money Advice Service, June 2018, p 42.

<sup>5</sup> Since 2016, people from age 55 have the right to cash out their pensions or transfer their pensions into other types of investment.

<sup>6</sup> See, for example, Sorcha Mahony and Larissa Pople 2018, Life in the Debt Trap, The Children’s Society.

<sup>7</sup> The new Single Financial Guidance Body, combining the Money Advice Service, Pension Wise and The Pensions Advisory Service.

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(such as the introduction of Universal Credit); regulations around consumer protection; vulnerability; and credit, savings and insurance regulations.”<sup>8</sup>

MAPS’s proposed strategy for reaching the working age population involves:

- Financial capability workshops combined with individual support
- Modular content for flexible delivery
- Use of life events and ‘teachable moments’
- Partnering with existing organisation to reach hard-to-access groups
- Training target group practitioners
- Creating engaging digital interventions
- Peer-led and volunteer activities
- New forms of low cost credit combined with money guidance
- Behavioural insights to design nudges and choice architectures that promote financial capability

MAPS proposes two specific targets for the next four years: an increase in the proportion of the working population saving regularly and a reduction in the proportion of the population relying on credit for everyday essentials.<sup>9</sup>

## What needs to happen?

### Overall

- All people should receive the assistance and advice they need to raise their financial capability throughout their lives.
- Financial capability programmes should be delivered primarily face-to-face via community and workplace channels where adults already associate in cohesive groups. Digital approaches can be complementary to face-to-face initiatives, but should not be the only method used, as ‘digital only’ would exclude too many people.
- Private and public sector employers should engage with financial capability, recognising that financial wellbeing is often not supported through Employee Assistance Programmes, which often only cover financial difficulty and/or debt management.
- To raise its importance, financial wellbeing should be included in company programmes such as Investors in People.
- Financial capability work should be quality assured through the development of UK accreditation standards, programme evaluation and practitioner competency verification.

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<sup>8</sup> MAPS 2019, Listening Document, page 38.

<sup>9</sup> MAPS, Listening Document, page 35.

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## Strategic leadership

- Government should support the Money and Pensions Service (MAPS) by making sure adult financial capability interventions occur on a sufficient scale to make a measurable improvement to the UK's overall level of financial capability.
- Resources should be available to engage independent external experts, such as The Money Charity, to deliver financial capability in workplace and community settings.
- Encouragement should be given to the development of financial capability products and services – including new digital apps - that are engaging and tailored to their audiences, and which assist people make financial decisions that improve their financial wellbeing.
- MAPS should continue improving the evidence base for financial capability, identifying those methods and approaches across the sector that have the biggest impacts on knowledge, skills and behaviours. The programmes evaluated need to be of sufficient intensity and duration to have measurable effects.
- MAPS should seek to balance funding to all population groups who need free or low cost financial capability support. This includes people in the 'cushioned' segment (as presently defined by MAPS) as well as in the 'struggling' and 'squeezed' segments.<sup>10</sup>

## Advice and guidance

- Charities and consumer groups should be able to give general money advice tailored to individual circumstances<sup>11</sup> without crossing the threshold into regulated financial advice. MAPS in partnership with the FCA should take the lead in tackling this issue to achieve a rebalanced and clearer advice/guidance boundary.
- Where commercial providers link financial wellbeing to a product (eg debt consolidation loans), financial wellbeing advice should not be used as a sales channel and the consumer should be offered financial wellbeing support delivered by an independent provider.

## The Money Charity

- Working with employers, institutions and community groups, The Money Charity will offer an expanded range of workshops, programmes and modules

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<sup>10</sup> MAPS January 2019, Market segmentation – segmentation infographics. Available at: <https://www.moneyadvice.service.org.uk/en/corporate/research>

<sup>11</sup> For example, priority debts and priority bills.

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to empower people to build the skills, knowledge and behaviours to make the most of their money throughout their lives.

- Our workshops, programmes and modules will be of high quality, using interactive activities and easy-to-assimilate materials that engage and interest the audience.
- We will innovate with improved digital resources, expanded delivery channels, public course offerings and partnerships with fintechs, challenger banks and non-financial services organisations.
- We will evaluate our work for practical effect, choosing those methods and approaches that have the biggest impacts on behaviour and financial wellbeing.

**The Money Charity** is the UK's financial capability charity providing education, information, advice and guidance to all.

We believe that everyone achieves financial wellbeing by managing money well. We empower people across the UK to build the skills, knowledge, attitudes and behaviours to make the most of their money throughout their lives, helping them achieve their goals and live a happier more positive life as a result.

We do this by developing and delivering products and services which provide education, information and advice on money matters for those in the workplace, in our communities, and in education, as well as through influencing and supporting others to promote financial capability and financial wellbeing through consultancy, policy, research and media work.

We have a 'can-do' attitude, finding solutions to meet the needs of our clients, partners, funders and stakeholders.

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