The Money Charity response to the FCAs ‘Our Future Approach to Consumers’

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 being on top of your money 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. The Money Charity values the FCAs sincere efforts to engage consumer organisations when it comes to the design and delivery of its regulations. We welcome the desire from the FCA to take a robust and rounded approach to consumers, as well as the focus on the vision for a well-functioning market for consumers. An approach that focuses on the actual behaviours and actions of consumers, acknowledging that they often do not act as dictated by theory, is good to see.
2. Whilst we support the majority of content inside the paper, there are several recommendations we would make concerning the definitions of financial capability, vulnerability, as well as the aspirational visions and outcomes, and the levels of responsibility for consumers over their decisions.
3. As a charity which delivers financial education and capability services, we do not have sufficient expertise in all areas discussed in the 'approach to consumers' consultation. However, we detail our support, recommendations and concerns on what we are knowledgeable in through the questions asked in the consultation.

Q1. While having regard to the general principle that consumers should take responsibility for their decisions, do you agree that there are circumstances where consumers cannot be expected to take responsibility? What do you think these circumstances are? How could – and should – the FCA intervene in these cases?

4. We do agree that there are a number of circumstances where consumers cannot be expected to take responsibility. When consumers show signs of serious vulnerabilities such as a mental or physical illness which affects their ability to make financial decisions or be financially dependent, there needs to be proper checks and regulation in place to make sure they are supported and treated appropriately by firms. We believe the FCA is making good headway to ensuring vulnerable consumers are protected from this. However, the 'Approach to Consumers' does also take a stance on the rationality of consumers choices. This approach is welcome and supported by The Money Charity, and should be instilled in the circumstances where consumers cannot be expected to take responsibility, or at least have a low level of responsibility. Where it states 'very few consumers are ideal', we believe something along the lines of 'very few consumers behave rationally', which better reflects the findings of the FCA's Financial Lives Survey.
5. For example, if we take on board that the majority of consumers do act irrationally in decision making, and many have low levels of financial capability, then we would expect their levels of responsibility in their decisions to be low. We warmly welcome taking an approach based in the real world, where consumers don't often make decisions that are best for them, and we believe the approach should be taken into consideration when looking at the circumstances where consumers cannot be expected to take responsibility, or have very little responsibility.

Q2. Do you agree that firms have a responsibility to take reasonable steps to identify the signs of vulnerability, and to have processes in place to take appropriate action where they have identified a consumer with a particular need and at a particular risk of harm?

6. We agree that when consumers demonstrate a certain level of vulnerability, a firm should have appropriate practices and policies in place to ensure consumers are not harmed by the product used. Of course this depends on what exactly the FCA defines as vulnerability. We welcome a more nuanced and fleshed out definition of vulnerability, in order to encapsulate a wider view of who is vulnerable and how to identify them. We also support the indicators noted for how to define someone as 'potential vulnerable'.
7. However, the language used in the definition may be hard to quantify the term 'disproportionately'. Someone suffering disproportionately could be interpreted in many different ways, and considering the group identified as having low financial resilience stands at 30%, there are a large number of people who have the potential to suffer, bringing into question how appropriate using the word 'disproportionately' is. Perhaps the indicators mentioned further on could bring more detail to what the FCA means by 'disproportionately'.
8. We would also recommend removing the word 'readily' to the first part of the definition. Whilst we acknowledge that firms struggle to identify someone as vulnerable without being informed of a change in circumstances, regardless, they are still vulnerable. Therefore, we would recommend that the definition be 'people who can be identified as significantly less able to engage with the market'.
9. Furthermore, we would recommend clarifying what the FCA defines as financially capable, and consider whether self-selecting surveys for such data is appropriate. The 'Numeracy and Financial Capability: Exploring the Links' report finds that 11 million people in the UK are over confident in their financial skills. The MAS 'Financial Capability Survey also found that 22% of people couldn't read the balance on a bank statement. Many people who do in fact have low financial capability, may report themselves as being sufficiently financially capable as they are either over confident or do not know what would define them as having low capability. Therefore, we are concerned with the statistics found in the 'Capability' section, that 17% of people were identified as having low capability through self-selection, when we know that roughly 17% of the population are also overconfident with their financial skills.

Q3. Which consumer issues do you think sit directly within the FCA's remit, and which are more a matter for Government? Are we right to commit our resources to working with other organisations, such as firms, other regulators, Government, courts, consumer groups etc., where improved consumer outcomes may require action that is not within the FCA's regulatory toolkit?

10. We welcome the FCA's interest in access and vulnerability in recent years, which we believe is in their remit. We also understand that there are a number of societal and

cultural issues which sit outside the FCA's remit. However, the FCA should always do their utmost to influence others in acting upon these issues.

11. For example, throughout the document, low financial capability and confident is noted as a key cause of a number of issues identified by the FCA. In the section 'The interplay with Government and other stakeholders', the FCA notes that it in MAS's statutory responsibility to improve financial capability. However, the FCA does approve the MAS budget, and therefore has influence over the money it spends on debt advice, which is disproportionately higher than the money that they spend on financial capability. Whilst the FCA is not responsible for improving financial capability themselves, they do have influence over the body that does, and should therefore exercise that influence.

Q4. Do you agree with the aspirational vision and outcomes that we explore? Are there any further barriers or risks to us achieving it?

12. We fully support the content of the aspirational vision and outcomes. However we would note that they could be too aspirational compared to the actions laid out by the FCA to reach these visions later on in the document. If the FCA hopes to meet all of these aspirational visions and outcomes, we would recommend including more action on how they will influence firms to behave in a way which matches the visions set out.

Q5. What further metrics would you use? Are there any specific data sources or tools that may be of benefit?

13. One change in the FCA's approach to data gathering and production is to link up better with the research and data produced by MAS.
14. Another action the FCA could take to improve the way it designs remedies is to put out messages on what risks they are identifying and researching. We understand that the FCA has to follow the process of collecting data to identify potential harm, defining the issue, understanding the harm and whether remedies are cost-effective. However this process can take a long time and it would be great to see the areas the FCA are researching and identifying as potentially harmful during this process.

Q6. Do you agree with this framework? Would you like us to consider any additional or alternative factors in how we regulate:

a. for all consumers

b. for the most vulnerable and excluded, and

c. to meet the challenges of the future?

15. A focus on the most vulnerable and excluded consumers is fantastic to see, and we fully support it. We would also reiterate our support for acknowledging that consumers can often be irrational, unpredictable, and taking action to account for this

in how the FCA regulates is welcome. We would like to take the time to thank the FCA for accepting feedback on their ‘Our Future Approach to Consumers’, and fully support the overall approach and actions taken by the FCA in the document.