Consultation
Response

HM Treasury

Public Financial Guidance Review

December 2015

Executive summary

The Money Advice Service (MAS) welcomes the government's decision to review the landscape for public financial guidance. Increasing freedom and choice, combined with greater personal responsibility, and an increasingly complex marketplace for financial guidance and advice, mean there is a need to establish a long term, sustainable framework for provision of publicly supported guidance on financial matters.

The purpose of public financial guidance is to address market imperfections

Public financial guidance should aim to increase consumers' financial capability – their ability and motivation to manage their financial affairs effectively for the short and long term including their ability to choose appropriate financial products and services.

As such, effective public financial guidance should help to address market imperfections that otherwise inhibit consumers' ability to exert effective demand-side pressure on providers. It should increase competition, enhance efficiency, and deliver better outcomes for all. Long term increases in the UK population's financial capability will deliver significant economic benefits, for consumers, for financial services firms, and for the wider economy. The scale of the benefits that can be achieved are not yet fully understood, but are significant and so far unappreciated. The costs of poor financial capability, and of problem debt, are significant and widespread, affecting individuals, financial services firms, the Exchequer, and society at large.

The importance of financial capability to the effective functioning of financial services markets, to financial stability, and financial consumer protection, has been widely recognised by governments, regulators, and central banks worldwide, and international institutions including the G20 have endorsed national efforts to increase financial capability.

Industry funding remains appropriate – but impartial coordination is required

Effective guidance and increased financial capability is in the interests of financial services firms; these firms should be the principal funders of such services. But the financial industry, collectively, has imperfect incentives and will not solve the problem without compulsion. Voluntary sector organisations are vital delivery partners, and much voluntary provision of high quality. But the scale of the problem to be addressed requires a sharp focus on effective delivery and efficiency in the use of scarce funds. An impartial organisation, with clear objectives to provide the right incentives to these delivery partners, is essential.

We propose a new organisation to bring greater coherence and strategic focus to public guidance

There is therefore a compelling case for a continued government role in coordination (though not, necessarily, delivery) of these services. MAS believes a new organisation should be created to bring together the functions currently delivered by MAS, TPAS, and Pension Wise. This organisation, funded through levies on the financial services industry, would remove duplication and inefficiency in the current guidance landscape, and deliver a more coherent service to consumers, with a lower industry levy. It should be accountable for delivering clear statutory objectives to procure guidance services and interventions in the most effective and efficient way possible. It should commission, grant fund, or procure services in such a way to deliver an integrated, responsive, and personalised guidance service to consumers throughout their financial lives, supporting long term increases in financial capability. It should be based on evidence of what really works, and on consumer insight into the financial problems consumers need help with.

A. Detailed response

1. Introduction

1.1 The Money Advice Service (MAS) welcomes the Government's decision to review the landscape for provision of publicly supported financial guidance. A period of significant change, in the policy environment, in the range of guidance services supported by the public sector, and in the market for financial services, means that it is appropriate to consider afresh whether, and if so how, the government should support provision of financial guidance for consumers.

1.2 MAS believes there remains a strong case for such support, and that there is an opportunity for that support to be delivered in a more streamlined, coherent way. It can simultaneously deliver reductions in duplication, cost, and confusion for consumers, while increasing consumer engagement, and delivering more integrated guidance that helps consumers make the right choices for them.

1.3 Increasing freedom and choice for consumers should deliver net gains for individuals and for the whole economy, including the financial services industry. The purpose of publicly funded financial guidance (including efforts to improve consumers' financial capability) is to ensure that consumers can take full advantage of such freedom, to ensure that the market delivers optimal outcomes. It does so by addressing a number of important market failures which otherwise would inhibit the ability of consumers to exert positive demand-side pressure in the market. Put simply, good money and debt advice, and financial capability interventions, make markets more efficient, and increase demand for appropriate financial products and services.

1.4 Evidence on the value of increasing consumers' ability to make sound financial decisions is beginning to emerge. Forthcoming research commissioned by MAS from Europe Economics indicates that modest improvements in financial capability across the whole UK population are likely to carry benefits to household wealth with a NPV of £68 billion over 30 years.[1] In the next stage of this work, we will aim to estimate the costs and benefits to the exchequer, the financial services industry, and the wider economy, from improved financial capability.

Scope of this response

1.5 In this response, we focus on setting out the Money Advice Service's view on the future of public financial guidance - its statutory footing, funding, accountability, and organisation. We do not focus in detail in this response on the current or past performance of strategy of MAS as currently constructed. These are matters of legitimate interest, and ones that other respondents will no doubt wish to comment on. They have also been addressed at length in

[1] Europe Economics (2015/16, forthcoming): *Impacts of Improved Financial Capability: Interim results*.

the Independent Review, and in previous external assessments of MAS. At Annex C, as requested by the Government, we provide our final formal response to the Independent Review of MAS conducted by Christine Farnish - Annex C should be read alongside our draft 2016/17 Business Plan, which will be published for consultation shortly after this response.

1.6 Throughout this response, we address the importance of financial capability interventions and the strategic coordination of financial capability activities. But we do not focus on the specific areas of need or the appropriate measures to address these needs. These issues are discussed at length in the UK Financial Capability Strategy published in October 2015, which MAS believes should inform the Government's analysis of the existing landscape and the appropriate future shape of provision.

1.7 In this response, we focus principally on general money guidance and on interventions and activities aimed at increasing consumers' financial capability, and on pensions guidance as currently delivered via Pension Wise. We do not focus in this response on the rationale for debt advice services – we note that the consultation makes clear that the Government considers continued public support for debt advice to be a clear ongoing commitment, and seeks views principally on how debt advice services can be most effectively delivered. Our proposals for the future coordination of all in-scope public guidance services incorporates the appropriate future provision of debt advice.

1.8 A key question posed by the consultation is "what role, if any, should a statutory body have in supporting general money guidance… [and]…financial capability?" We seek to answer this question clearly by setting out the economic rationale for state support for such activities. We then set out why the state, in the form of an independent, statutory body funded by the financial services industry, should have responsibility for the coordination of these services. Finally, we provide a proposal for how the institutional landscape should be reformed to deliver greater focus, greater efficiency, and better outcomes for consumers and for the economy. Part B of this response provides answers to the specific questions posed by the consultation where these are not covered in the body of this response.

Definitions

1.9 It is not possible to draw a clear distinction between money guidance and financial capability activity. For the purposes of this response, money guidance and financial capability should be considered complementary and closely related, if not synonymous. An important component of financial capability is the ability to deal with financial difficulty, so debt advice should be considered an intrinsic element of financial capability policy.

1.10 "Financial Capability" is increasingly used to describe a mix of skills, knowledge, attitudes, and connections to the financial system, but internationally, and in many scholarly or regulatory accounts, the terms financial literacy or financial education are used. We treat these terms as synonyms throughout this response.

2. The purpose of Financial Guidance and Financial Capability

2.1 In this section, we outline MAS's view on the economic purpose and aims of public financial guidance and financial capability interventions, together with selected evidence on the views of key stakeholders and commentators outside of the financial guidance sector on the importance of financial capability to financial stability, consumer protection, and economic performance. At Annex A we provide a brief overview of evidence on the impact on consumer outcomes and behaviour of differing levels of financial capability, and on the efficacy of interventions aimed at increasing financial capability.

There is a clear economic rationale for public financial guidance and financial capability activity

2.2 When delivered well, MAS believes money guidance and financial capability interventions have the potential to improve the ability and propensity of consumers to make financial decisions that deliver better outcomes for them. Well-informed and capable consumers, motivated to achieve the best possible deal for them, will exert increased demand-side pressure on firms, leading over the long term to increased competition and supply-side responsiveness.

2.3 All other things being equal, MAS believes that guidance can help consumers make the financial services sector operate more effectively and deliver sustainably positive outcomes for consumers, firms, and the economy. These outcomes can be achieved through making a positive contribution to financial stability by reducing levels of problem debt and inhibiting the emergence of exploitative or other unsustainable products and practices in the financial sector.

2.4 The Independent Review of MAS suggests that MAS's activities can be understood through a distinction between debt advice for those already in financial difficulty, and "preventative" money advice to help others avoid getting into financial difficulty. It is undoubtedly true that for many consumers, good money advice delivered at the right time can help avoid serious financial mistakes, or can help consumers put in place the protections against financial shocks. But money guidance should also be seen as a means of assisting consumers to meet their long term financial goals, which in most cases will go beyond avoiding getting in to problem debt, or to avoid detriment which if suffered would not be catastrophic or tip them into financial difficulty. The third "plank" of MAS's current activity can be understood as helping all consumers make optimal money decisions. In an imperfect market, this is a legitimate goal for public policy.

Money guidance and financial capability should address market failures

2.5 The ultimate reason that financial guidance and capability stands to improve the operation and stability of markets, is therefore because they are – or should be – aimed at addressing identifiable and significant market imperfections or market failures. These range from classic market failures such as significant information asymmetries that give suppliers advantages in transactions that result in sub-optimal outcomes, to behavioural biases that have been demonstrated through recent advances in behavioural science. Table 2.1 provides a number of examples of such market failures.

Table 2.1: Market failures affecting consumer financial decisions

Market failure	Example	Remedies (partial/full)
Information asymmetries	Differences between pension savers' and pension providers' understanding of longevity risk	"Wake up packs"; regulatory requirements for provision of impartial information; pensions guidance
Myopia	Failure to accurately estimate future expenses and financial needs	Getting people to think about and plan for the future
Coordination failure	Failure to manage money, e.g. irregular incomes, unexpected expenses	Active promotion and provision of budgeting practises. Debt advice
Overconfidence	Older consumers most confident of ability to manage money, but exhibit amongst lowest skills and knowledge	Targeting of guidance and information, and promotion of regulated financial advice
Underconfidence	Lack of confidence to make financial decisions results in detriment	Financial Capability programmes building skills, knowledge and confidence.

Source: MAS analysis

Increased financial capability is necessary to achieve Government's priorities for financial services and competition

2.6 MAS does not suggest that increasing financial capability alone will address these or other imperfections and failures in the market. Regulation and a range of policy measures to increase supply side competition are always likely to be required in complex financial services and other markets.

2.7 However, MAS believes that these supply-side focused interventions are unlikely to realise their full potential in the absence of efforts to increase consumers' ability to reap the benefits. For example, initiatives such as those intended to enhance competition in the personal current account market – including the creation of the Current Account Switching Service (CASS) and miData current account comparison service – may be less successful in driving competition than they might if consumers were themselves more motivated and able to seek out better deals from the financial services sector. The Competition and Markets Authority have identified significant barriers to use of the CASS:

> *55% of customers considered that switching was a 'hassle' and 42% fear that something 'may go wrong'. Recent research by the FCA found that customers lacked awareness of CASS with only 51% having heard of CASS prior to the survey…the Payments Council reported in*

December 2014 that less than 50% of consumers were confident that CASS would complete their switch without error. [2]

2.8 To enhance the impact of such initiatives, it is necessary to address the behavioural barriers, knowledge gaps, and motivational factors, which will tend to limit take up of interventions that make information easier to access and understand. Table 2.2 below illustrates the need for both supply- and demand-side measures to achieve the Government's stated objectives for UK financial services policy.

2.9 Government will wish to consider the role of effective guidance and financial capability fully in the context of future possible changes to the tax treatment of pensions saving and the creation of a secondary market in annuities, among other possible policy developments.

2.10 MAS agrees with HM Treasury's view, articulated in its recent publication *A better deal: boosting competition to bring down bills for families and firms,* that:

> *Active and assertive consumers are key to creating competitive and dynamic markets. They incentivise businesses to be agile and responsive, to innovate and be more efficient and to improve their competitive offer. However, to fulfil this role effectively, consumers need to be well informed, unencumbered in pursuing the best deal and sufficiently protected when things go wrong – and this is where government can assist.*[3]

2.11 In considering the appropriate balance between conduct regulation and improved financial literacy (or capability) in driving improved outcomes in the UK banking sector, the Parliamentary Commission on Banking Standards concluded that increased financial literacy was an important component of the long term solution, and suggested that:

> *A more financially literate population will be better capable of exerting meaningful choice, stimulating competition and exercising market discipline on banks…Mis-selling and undesirable cross-selling are very unlikely to be eliminated through higher financial literacy, but improvements to such literacy will help bear down on those problems and be more effective, in many cases, than ever more detailed conduct regulation.*[4]

2.12 In assessing the role of financial education in improving retirement planning decisions, the European Securities and Markets Authority (ESMA) suggests that "a rising share of unsophisticated investors can adversely impact efficient capital allocation in an economy", which can "hinder economic growth and create contingent liabilities for those economies whose population did not adequately save". ESMA further note that "[a]part from the benefits that financial education may

---

[2] Competition and Markets Authority (2015): *Retail Banking Market Investigation: Provisional Findings Report,* p20 https://assets.digital.cabinet-office.gov.uk/media/563377e8ed915d566d00000f/Retail_banking_market_investigation_-_PFs_V2.pdf

[3] HM Treasury (2015), *A better deal: boosting competition to bring down bills for families and firms*, p17 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/480797/a_better_deal_for_families_and_firms_print.pdf

[4] Parliamentary Commission on Banking Standards (2013), *Changing banking for good: Report of the Parliamentary Commission on Banking Standards, vol.1*, p31.

have for individual's financial decision making and efficient capital allocation, increased financial literacy may also equip individuals to better cope with macroeconomic shocks".[5]

Table 2.2: Government Financial Services Priorities: Supply- and demand-side requirements

Stated Priority*	Supply Side requirements	Demand Side requirements – reliant on financial capability
Strong and stable FS sector	• Effective and proportionate regulation • Financial Stability • Economic Stability	• Consumer confidence in FS firms • Consumers make deposits / save • Sustainable household debt levels
FS sector internationally competitive	• Efficient, reliable technology e.g. CASS • Available information about products and services • Innovations to reduce search costs, e.g. miData comparison, Open Banking APIs, PCWs	• Consumers need to: o Access information – motivation, engagement o Assess information – skills/knowledge o Act on information – motivation, confidence, connection
FS should deliver for the customer; help to achieve aspirations at every stage of life	• Provision of products and services people need, e.g. willingness to lend, to insure • Innovative products and services. • Information provision - clear T&Cs and charging structures • Address behavioural biases, e.g. present bias, etc.	• Engaged consumers, able to understand value and discriminate between products • Confidence in using emerging financial technology, etc. • Consumers' ability and willingness to consider long term needs and financial goals • Consumers need access to products and services
FS to be trusted, to move on from mistakes of the past	• Proportionate regulation • Appropriate products • Professional standards and accountability, etc.	• Consumer confidence in FS firms • Ability to access, assess and act on information about products and services

*Source: HMT Ministerial speeches, May-October 2015; MAS analysis

[5] European Securities and Markets Authority (2015): *How can financial education enable individuals to make better saving and investment decisions?* p3. https://www.esma.europa.eu/system/files/2014-1465_report_how_can_financial_education_enable_individuals_to_make_better_saving_and_investment_decisions.pdf

Financial capability supports financial stability

2.13 Central Banks worldwide have recognised the role of financial capability in financial stability and the sound functioning of financial services markets. In 2011, then Chairman of the Federal Reserve Board Ben Bernanke noted that:

> *The recent crisis demonstrated the critical importance of financial literacy and financial decision making, both for the economic welfare of households and for the soundness of and stability of the system as a whole. Good financial choices depend on reliable and useful information, presented in an understandable way. Essential components of personal financial management include an understanding of how to budget strategically, use credit, save to build personal wealth, and shop for and choose suitable financial products.*[6]

2.14 In considering the role of consumer protection policies in maintaining financial stability in the credit market, the Financial Stability Board make clear that:

> *Financial education, financial literacy and consumer protection policies should form the foundation of any regulatory and supervisory framework for protecting consumers particularly amid efforts to expand financial inclusion by reaching "unbanked" customers.*[7]

Financial capability is an important component of financial consumer protection

2.15 As the Parliamentary Commission on Banking Standards noted, increased financial capability has the potential to increase competitive pressure on firms, but also to act as a countervailing force to those which may otherwise result in consumer detriment and the need for conduct regulation.

2.16 Financial capability therefore has an important role in consumer protection, as engaged and discerning consumers are likely not only to seek out better deals, but also know how to seek redress when necessary. In 2010, G20 Leaders called on the OECD to develop high level principles for the development of financial consumer protection policies in response to the global financial crisis. The fifth core principle adopted by the G20, on financial education and awareness, recommended that "[t]he provision of broad based financial education and information to deepen consumer financial knowledge and capability should be promoted, especially for vulnerable groups".[8] G20 Leaders, in accepting the principles, agreed that "[we] will pursue the full application of these principles in our jurisdictions".[9]

Conclusion

2.17 Money guidance and financial capability interventions address market failures because they contribute to the functioning of markets, delivering optimal outcomes to individuals, firms, and the wider economy.

---

[6] Bernanke, B.S. (2011): *Statement to Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia,* Committee on Homeland Security and Governmental Affairs, U.S. Senate, 20 April 2011 http://www.federalreserve.gov/newsevents/testimony/bernanke20110420a.htm

[7] Financial Stability Board (2011); *Consumer Financial Protection with particular focus on credit*, p3 http://www.financialstabilityboard.org/wp-content/uploads/r_111026a.pdf

[8] G20/OECD (2011), *G20 High-level Principles on Financial Consumer Protection. http://www.oecd.org/daf/fin/financial-markets/48892010.pdf*

[9] G20 (2011) *Cannes Summit Final Declaration, http://g20.org.tr/wp-content/uploads/2014/12/Declaration_eng_Cannes.pdf*

3. Scale of the financial capability challenge

Significant weaknesses remain in UK consumers' financial capability

3.1 The UK Financial Capability Strategy contains extensive analysis of the financial capability challenges faced by consumers at key life stages and at key financial decision points, and we will be pleased to assist the review secretariat in understanding fully the dynamics of UK consumers' financial capability utilising the comprehensive data contained in the 2015 Financial Capability Survey. The Government's consultation makes clear that it is considering whether there is any continuing case for government support for financial capability and money guidance interventions, including, we assume, the existence of a public entity to coordinate a financial capability strategy informed by robust insight on existing levels of capability. Decisions on whether to withdraw support for such activities should be informed by a thorough understanding of the size of the problem which they aim to address. Key findings from the 2015 Financial Capability Survey illustrate the level of capability which guidance must reflect and which financial capability interventions must address.

- Four in 10 adults are not in control of their finances
- four in 10 have less than £500 in savings
- one in three cannot calculate the impact of a 2% annual interest rate on £100 in savings
- one in five cannot accurately read a simple bank statement (24% of 18-24 males; 59% of BME 55+)
- 8 million people have problem (unsecured) debts, with a social cost of ~£8billion p.a.

The main areas of need for public guidance have remained constant in recent years

3.2 Following the Independent Review of MAS, as part of MAS's comprehensive effort to understand how the service's corporate strategy should evolve in the future, MAS worked with an independent panel of experts from the financial services industry, the third sector, and academia, and representatives of the FCA Consumer and Smaller Business Practitioner panels, to consider a detailed, wide-ranging analysis of the areas of greatest need for financial guidance, based on an analysis of the potential detriment that consumers stand to suffer from exhibiting given financial behaviours. We have previously explained this process, which was developed with KPMG and which was discussed at some length with the independent panel, with HM Treasury. In broad terms, the analysis demonstrated that the biggest "flashpoints" of need were in:

- effective household budgeting;
- building a resilience savings buffer and developing a savings habit;
- planning for retirement; and
- seeking assistance with financial difficulties.

3.3 Perhaps the most striking fact about this analysis, which was deliberately a fresh analyses of where the greatest need lies, was that the priorities identified were remarkably constant, echoing areas which the Thoresen Review, in 2008, identified as the areas that a generic financial guidance service should focus on.

4. The role of private, voluntary, and public bodies in providing financial guidance

There is a strong rationale for impartial, public coordination, funded by the financial services industry

4.1 MAS believes there is a strong case for continued support for money guidance and financial capability interventions. However, it does not necessarily follow from this analysis that such activities should be delivered or coordinated by a public entity or be funded or supported by government in any form. In this section, we set out why we believe there remains a strong case for public support for such activities. MAS believes that only a publicly supported organisation, funded by the financial services sector and with guaranteed impartiality, and clear and limited objectives, can achieve the level of strategic coordination, focus, and efficiency required to deliver guidance such that it is evidence-based, effective, and offers value for money for tax- and levy-payers. We also demonstrate, at Annex B, that there is widespread acceptance, internationally, of the need to devote public resources to providing financial guidance and financial capability initiatives.

Financial services firms should fund money guidance and financial capability, but cannot effectively provide these services alone

4.2 Sound financial guidance in all its forms, and increases in financial capability, are in the long term interests of consumers and of financial services firms. Financial services firms are a major beneficiary of engaged and motivated consumers who are more likely to become customers and more likely to hold (appropriate) financial products. The Thoresen Review, following extensive analysis, identified significant benefits to the financial sector associated with consumers receiving sound generic financial advice in the form of reductions in debt write-offs, reductions in customer acquisition costs, increased demand for products, and reduced costs of regulation.[10]

4.3 The long term benefits that accrue to financial services firms justify continued industry funding of money guidance and financial capability. There is widespread industry acceptance of this principle. For example, the Tax Incentivised Savings Association's Savings and Investment Project, comprising a range of retail banks, pension providers, asset managers, and other financial services businesses, has made clear that, alongside industry efforts to coordinate financial education, Government should establish a single body for the delivery of financial capability activities.[11] (Our discussions with TISA suggest that perceived uncertainty over of the long term future of MAS led the project's participants to recommend the creation of a new organisation).

4.4 However, despite the longer term benefits, firms are subject to conflicting incentives, which inhibit their propensity to invest in efforts which might, in the short term, disrupt existing practices or,

---

[10] Thoresen Review of generic financial guidance (2008) *Final Report,* p32.
[11] TISA (2014) *Saving our financial future: Policy recommendations,* p6.
http://www.tisa.uk.com/downloads/TSIP%20Policy%20Proposal%20Report%202015.PDF

worse, result in little immediate visible improvement in costs or profitability, thereby undermining the case for long term investment in such activities.

4.5 Firms have clear incentives to provide information that is of direct relevance to their own business and which tends to favour their own products and services. The information provided by firms is typically selective and cannot be expected to offer a truly comprehensive view of an individual's financial position, etc.

4.6 The financial services industry could, theoretically, come together and fund coordinated, comprehensive activity aimed at increasing consumer capability. However, there is little evidence that a disparate industry with competing, and often conflicting commercial interests between product categories (for example, inherent tensions exist between investment and lending businesses; and between insurance and retail banking businesses) is likely to be able to mount such an effort. The central coordination of industry-funded activity is key to ensuring that guidance is delivered efficiently and effectively.

4.7 Below, we explain why such coordination cannot be delivered by the voluntary sector alone, and why we believe this coordination should be provided by a public sector entity with clear statutory objectives.

Voluntary sector organisations have an important role

4.8 A wide range of voluntary and other third sector organisations contribute to efforts to improve financial capability, and provide money guidance. Regardless of the outcome of the government's consultation, many such organisations will continue to provide information and guidance to a range of client groups utilising a wide range of delivery mechanisms. The efforts of any public sector entity will be magnified and enhanced by close coordination with these organisations. The UK Financial Capability Strategy, developed and launched by MAS in October 2015, reflects the importance of the "collective impact" of these numerous organisations, and an effort to focus the financial capability activities of a wide range of organisations on developing and testing evidence based approaches to address persistent financial capability challenges.

4.9 More than 50 organisations have been involved in the development of the Financial Capability Strategy, and more than 200 organisations are likely to be involved in the delivery of the Strategy over its 10 year life. While some organisations are dedicated to providing financial capability and money advice services, the vast majority have wider ranging interests and objectives. Many of these organisations exist to serve a particular client group, and often to do so through a particular delivery channel or mechanism.

4.10 MAS believes there is an important role for a coordinating organisation to bring greater focus to third sector provision of money guidance and financial capability interventions to ensure that they are consistently focused on:

- Efficiency and optimal organisational design to meet consumer need;
- Serving the interests of client groups regardless of organisations' traditional focus; and
- Adoption of appropriate delivery channels and mechanisms based on analysis of consumer need, rather than organisations' traditional focus.

4.11 Following the Independent Review of MAS, our analysis of the money advice landscape suggested that there are significant gaps in provision, especially for working age adults - while some groups are well served with information and guidance, and while there is some evidence of effective efforts to improve financial capability on a limited basis among certain client groups, these services are patchy and often limited in scope.

Efficiency and effectiveness are more difficult to drive where providers have conflicting incentives

4.12 It is essential that interventions are optimised to deliver policy objectives effectively and efficiently, and that the organisation accountable for delivery of such services should have clear objectives to deliver outcomes, rather than to maintain existing delivery models.

4.13 The Government could take a policy decision on the outcomes it wishes to see and simply procure, commission, or grant fund provision by external entities, including potentially through voluntary sector organisations. However, this option militates against the achievement of inherently long term goals and will tend to favour the achievement of shorter term policy goals, such as maintaining the funding to a given organisation, potentially at the expense of efficiency, or reducing reputational or delivery risk for a central.

4.14 MAS believes that delivery of money advice and financial capability interventions can be undertaken by voluntary organisations with increased efficiency and effectiveness, if they have the benefit of strong incentives and greater coordination by an impartial and independent organisation which has clear objectives to achieve long term outcomes efficiently and without special regard to existing structures or funding arrangements. The transformation in the provision of debt advice, explained in section 6 below, is instructive here.

An independent, impartial organisation is best placed to deliver long term progress

4.15 We therefore conclude that in order for the long term aims of increased financial capability and effective money guidance to be delivered, it is necessary for a single central organisation to be accountable for delivery of clear statutory objectives to achieve improved consumer financial capability in the most efficient and effective way available. This would require such an organisation to be focused on identifying and scaling up the delivery of truly effective solutions, without immediate regard to meeting shorter term goals to safeguard particular revenue streams or operating models. Given the conflicting incentives of the financial services sector and the third sector, we believe a public sector organisation, with clear statutory objectives and a robust accountability regime, represents the most effective way of achieving this goal. We explain the proposal that flows from this analysis further below in section 7.

Conclusion

4.16 Financial guidance and financial capability should be funded by the financial services industry as a major beneficiary, but an independent, impartial, and state-backed organisation should be accountable for effective coordination of these activities.

5. The current public financial guidance landscape

The existing public guidance offer leads to confusion, duplication, and inefficiency

5.1 MAS believes the current landscape for public financial guidance is confusing for consumers, leads to unnecessary and unproductive duplication. The landscape stands to benefit from increased efficiency and a more rigorous approach to basing services and interventions on a coherent strategy, informed by robust evidence of what actually works to improve consumers' ability to make key financial decisions in their best long term interests.

5.2 The following features characterise the current landscape (not including the debt advice sector):

- "Guidance" is poorly defined and **consumer awareness of existing services is low** (despite extensive marketing).

- **Overlapping remits** - the overlaps noted in the Guidance Review consultation document between MAS and Pension Wise, and to a lesser extent the Pensions Advisory Service, add to consumer confusion and introduce unnecessary duplication between these agencies.

- **"Hand-offs" between agencies are inconsistent and clunky**, leading to customer attrition and welfare losses (though there are pockets of good practice, as the consultation notes).

- There are **inefficiencies in duplicated effort** – e.g. web and advice infrastructure; and poor incentives to cooperate and reduce inefficiency (see paragraphs 5.7-5.9 below).

- So far**,** there has been **little commitment to robust evaluation of the efficacy of the guidance services offered to consumers among** any of the agencies in the scope of this consultation including, historically, the Money Advice Service. Though elements of services delivered may have been tested with consumers, e.g. for readability, ease of use, etc. no systematic effort has been made to understand whether these services actually influence consumers' understanding of, or ability to make, the choices they face.

5.3 Given the overlapping remits and of the organisations in the scope of the Review, we believe there is significant scope for institutional rationalisation to deliver greater coherence for consumers and greater efficiency for levy-payers.

5.4 This analysis does not, we believe, apply to the debt advice sector, where there is already a strong commitment to ongoing evaluation and monitoring, and a more systematic approach to effective coordination of services. At section 6 below, we explain the success of transformation in the debt advice landscape in recent years.

Duplication of effort and resources is inefficient and delivers detriment to consumers

5.5 The duplication of effort and resources inherent in the current guidance landscape is a driver of inefficiency and of confusion for consumers. We assume that the Government wishes to see consumers more able – and more willing – to take significant financial decisions at every stage of life in such a way that they are able to realise the best value available to them. Doing so will frequently require consumers to access guidance and/or regulated advice.

5.6 Experimental research suggests that where a rigid process is required to reach a given goal, and the difficulty of achieving the goal can be assessed, the single biggest impediment to consumers committing to a process to reach a decision is the initial commitment to exploring options and seeking help.[12] It is reasonable to conclude that, for those consumers who face a significant financial decision, the existence of too many guidance sources at the start of the decision process will tend to make it simultaneously harder to assess the difficulty of attaining the goal of an optimal outcome *and* reduce the likelihood that consumers will commit to the initial step of seeking guidance. For some consumers, this is likely to result in taking no decision at all; for others, it may result in taking the path of least resistance and taking sub-optimal decisions, such as failing to shop around for a retirement income.

Duplication in core functions between MAS and Pension Wise is inefficient

5.7 While the existing landscape is confusing for consumers, MAS also believes it exhibits inherent inefficiencies as a result of duplication in some functions. The overlap is particularly marked when comparing MAS and the Pension Wise service as currently constructed.

5.8 The following functions are wholly or partially duplicated in MAS and Pension Wise:

- Procurement
- Digital services – product management, design, and testing
- Editorial – production, testing, and maintenance of content
- Policy – capacity to develop and maintain guidance position
- Consumer research
- Service delivery, including:
    - Contract and supplier management
    - Training
    - Quality assurance
    - Performance management
    - Enquiry and complaints handling
- Project and programme management
- Marketing.

5.9 These functions overlap to varying degrees and the scale and capability of these functions within MAS and Pension Wise varies. MAS does not have full visibility on the current scale of provision of any of these functions in Pension Wise and so has not been able to estimate the possible direct cost of this duplication for levy-payers.

[12] See for example, Jin, L, Huang, S; Zhang, Y (2013): *The Unexpected Positive Impact of Fixed Structures on Goal Completion;* Journal of Consumer Research, 40 (4).

Constraints on Pension Wise illustrate opportunity to create a more holistic service

5.10 MAS recognises that Pension Wise was established to fulfil a very specific purpose in the context of pension freedoms, which addressed defined contribution pots. However, it remains a limitation of the Pension Wise service that it is focused on defined contribution pension pots and does not deal with any other "triggers" that may prompt consumers to seek guidance, such as accessing defined benefit pensions, transferring pensions, state pension, reducing working hours, etc.

5.11 The current Pension Wise session is a tightly scripted 45 minute session that covers the six options for an individuals' pension pot. Pros and cons of each option are outlined but the session is not tailored to an individual's particular circumstances. The session does not take into account: home ownership; debt position; other income; or means tested benefits. The session briefly touches on tax but does not give a strong steer on the consequences of executing each option. It directs the individual to shop around for an annuity or a financial adviser. When customers have a question outside of the scripted appointment, the customer needs to be referred to another agency. The discrete nature of Pension Wise guidance means that consumers are unable to access holistic guidance, and will tend to militate against consumers being fully engaged in making retirement decisions that reflect the entirety of their financial circumstances.

Box 5.1: MAS Retirement assets

MAS has developed a comprehensive suite of online retirement assets which complement Pension Wise and allow consumers to explore the complex decisions facing them as they consider how to provide for their post-retirement lives (these assets complement the printed retirement guide, *Your Pension: It's time to choose*¸ which is required to be sent to all pension customers approaching retirement age).

Our retirement planning offer includes:

- a comprehensive pension calculator;
- a market leading annuity comparison tool;
- a Retirement Adviser Directory (to which all Pension Wise delivery partners are expected to direct consumers with a need for regulated advice), and
- a comprehensive and interactive retirement income options tool, developed following extensive consumer needs analysis and consumer testing.

All of these assets are kept under review and MAS seeks to optimise them to keep pace with customer needs and developments in the market. Moreover, these assets make appropriate links to other financial issues which may affect a customer's retirement decisions.

MAS is also coordinating development of an Alpha prototype "pension finder" tool, and has committed to taking a leading role in the future development of a pensions "dashboard", while also participating in ongoing work convened by the ABI to simplify the language used in pensions communications.

MAS believes the retirement assets it has already developed demonstrate what is achievable with a truly integrated approach to guidance provision.

5.12 However, MAS believes that discrete changes to the Pension Wise Service are unlikely to realise the benefits that would accrue from a much more integrated and holistic service. Creating a holistic guidance service that is cohesive in nature and reduces the friction and barriers for the customer will provide an enhanced experience and increase consumer engagement. Decisions for people facing retirement do not stay solely in the realm of pensions decisions. Other life events often have a profound effect retirement decisions. Divorce provides a good example. A significant financial life event in its own right, divorce can have a major impact on finances years later, especially for those who have given up work to look after a family. Other examples include outstanding mortgages and other debt issues, which fall between debt and pensions guidance. A more responsive service would be able to answer questions on any of these issues.

5.13 In section 7 we discuss how a new organisation could lead to more integrated guidance provision which delivers clear benefits for consumers.

Conclusion

5.14 The current framework for public financial guidance is duplicative and inefficient. More could be done to provide a holistic, integrated, and more cost-effective offer to consumers.

6. Lessons from the debt advice sector

Recent experience from coordination of debt advice offers important lessons for future provision of public guidance

6.1 MAS took on responsibility for the coordination publicly supported debt advice from BIS in 2011, and its statutory responsibilities were expanded to include coordination of these services in 2012. Since that transfer, MAS has driven significant improvements in the efficiency, quality, and consistency of free debt advice provision, while increasing significantly the volume of clients receiving high quality free debt advice.

6.2 Central to achieving these efficiencies while also improving the quality and consistency of consumer outcomes has been the ability of MAS to drive adoption of a need based channel strategy and thereby reduce the use of relatively costly face-to-face services while increasing the quality and consistency of those face-to-face and telephony services that are still required. This ability flows from its role as a central coordinating and funding body that does not, itself, deliver debt advice, and that does not have any institutional vested interests in delivery through a given channel. This section describes how this has been achieved.

6.3 In September 2013 MAS invited lead delivery organisations to submit business plans indicating how they would meet the following new objectives for provision of free debt advice:

- Appropriate geographical coverage based on reaching all over-indebted groups locating services in the areas of greatest need:
- Face to face advice delivered only to those who need that channel:
- Services to deliver the best client outcomes, including long- term improvements in financial capability:
- Strong referral partnerships that meet clients' need for holistic support: and
- All participant organisations must hold a MAS accredited Quality Standard.

6.4 The grant agreements contain clear requirements for lead organisations and clauses from our grant agreement are incorporated into the grant agreements that lead organisations have with the approximately 200 participant organisations which deliver advice projects which help ensure consistency in compliance with the objectives.

6.5 The new grant agreements are based on a client outcomes model and we make payments on the basis of the effectiveness of the outcomes delivered. The key tool for us to measure this is through our annual independent evaluation. We have published independent evaluations of our services in England and Wales. We continue to use it as the primary assessment when considering the impact of our commissioning.

6.6 Funding to each of the five lead organisations in England and Wales now covers their advice across all channels, where face-to-face advice is reserved for those clients who need that channel, in order to maximise the efficiency of delivery. Additional funding provided in 2014 / 15 and in the current year has started to close the gap between need and supply of face-to-face advice, and we aim to close this completely by the end of the three year grant agreements.

6.7 We have included specific innovation projects to drive change and currently innovation is being delivered through new web chat and email advice, a Debt Relief Order Unit, telephone casework, and new telephone advice provision delivered through joining up National Debtline and Citizens Advice. We are confident that these developments, facilitated by our business planning process, will lead to enhanced efficiency while ensuring that skills can be developed in areas that are new for our projects.

6.8 Nine out of every ten pounds of our debt advice funding goes to direct delivery with the remainder covering a small staff team and our coordination work. Table 6.1 summarises the recent history of MAS-coordinated debt advice, which shows significant increases in number of clients served, and evolving channel mix with more clients served using telephone and digital channels, and very substantial reductions in unit cost to help each client.

Table 6.1: MAS-funded UK debt advice funding, clients, and channel mix, England and Wales

Year	Funding Level	Total clients	F2F	Phone & digital	Cost Per Client
2011/12	£27m	100,000	95%	5%	£270
2012/13	£26.75m	158,000	93%	7%	£169
2013/14	£27.55m	162,500	91%	9%	£169
2014/15	£30.36m	219,700	57%	43%	£138
2015/16	£34.6m	336,000 (projection)	38%	62%	£103

Source: MAS

6.9 Several important developments have allowed MAS to increase the efficiency and effectiveness of the free debt advice provision. These include:

- **A MAS quality framework**, comprising criteria that lead organisations' quality standards must adhere to, requirements for individual adviser training or qualifications, and a peer review scheme to ensure that advice appropriate and high quality;
- **An evaluation framework,** a toolkit available to the whole debt advice sector to enable providers to undertake robust, consistent, and comprehensive assessment of debt advice provision. MAS uses the framework to evaluate the projects that it funds;
- **A Common Initial Assessment,** developed with representatives from across the debt advice sector, which can be used to identify the most appropriate channel for an individual's needs.

6.10 MAS does not believe that the task of driving greater consistency, quality, and efficiency from free debt advice provision is complete. In part B we respond to the consultation's questions on how debt advice provision can be improved, while our forthcoming draft business plan and corporate strategy, alongside the UK Financial Capability Strategy, set out future plans for continued improvement.

6.11 Nonetheless, MAS believes the core principles that informed this approach to reforming provision of debt advice would be applicable to a reformed guidance landscape.

Conclusion

6.12 The transformation of debt advice in recent years offers a guide to the opportunities available to government in reforming provision of public financial guidance.

7. MAS proposal

7.1 We have demonstrated that the current landscape for public financial guidance is inefficient, duplicative, and a source of confusion and potentially of detriment for consumers. We have also demonstrated that there is a compelling case for continued public support for public guidance across money guidance, debt advice, pensions guidance, and, vitally, for financial capability interventions. The remaining question is therefore how the landscape should be reformed. There is unlikely to be a single correct answer to this question, and the Government must consider whether the benefits to reorganisation outweigh the frictional costs involved. We believe they do.

7.2 This section sets out a high level proposal for how the institutional and statutory landscape should change to deliver better outcomes for consumers and for levy-payers.

Principles for effective public financial guidance

7.3 The consultation document proposes a series of principles to underpin the provision of statutory guidance. We agree that the principles are sound, but we do not believe they are r complete. The following list incorporates the core principles proposed by the Government, and makes important additions.

- **Efficient** - services are provided in the most efficient and effective way, with due regard to the need to deliver value for levy funding.
- **Holistic –** A holistic service that addresses a consumer's financial needs in the round and reduces friction in the consumer journey.
- **Personal –** Guidance is tailored to the individual
- **Evidence-based** – services that are based on evidence of customer need, and of what actually works to help consumers make good choices
- **Independent and impartial –** guidance should be delivered free of any conflicting incentives and should be focused on delivering the best, objective guidance, above all else.
- **Consumer focused –** services focus on meeting these needs and coordinating the sector to improve the financial capability of the UK.

A new organisation, charged with coordinating and procuring evidence-led guidance and financial capability interventions

7.4 Detailed decisions on the exact mix of responsibilities, identity, statutory footing, and other detailed questions, are complex, and require significant consideration from Government in the context of broader policy decisions. So we do not, here, seek to set out detailed views on exactly how such a new organisation operates. Instead, we set out a proposed structure for a core organisation; its core functions, and its headline objectives and approach to procuring service delivery.

Evidence, strategy, and effective coordination are the key requirements

7.5 The core of a new institutional landscape should comprise a focused coordinating body, which should be accountable for ensuring delivery of services that meet tightly defined statutory objectives in the most efficient and effective way to serve the greatest number of consumers. In many respects, this organisation would reflect the organisation originally envisaged by the Thoresen Review and favoured by HM Treasury when the Financial Services Bill was introduced into Parliament in 2009. The Treasury's impact assessment described the "partnership" model as a "central body that has strategic responsibility for the service including service content as well as some centrally-led delivery (such as the website and marketing) with the bulk of delivery provided by existing organisations." This model was considered to combine "the advantages of strategic control sitting with the central body and the advantages of using existing organisations with the capacity and expertise to deliver 'on the ground'".[13] Since then, the principal means of delivering public financial guidance have moved decisively online, and the expectation that the central body would continue to provide web services directly may require some revision. Nonetheless, the expectation that key elements of the consumer facing service should be procured from existing organisations, while conforming to standards of quality determined by a strategic body, remain sound.

Robust, independent insight on consumer behaviour and "what works"

7.6 MAS believes that any new body must base its services and its priorities on thorough and robust analysis of consumer behaviour and a sound understanding of the evidence on what actually works to improve consumers' ability to make sound financial decisions. The commitment to evidence-based service should be an absolutely central component of an organisation spending levy-payers' money, and it should inform the strategy of the organisation and the detailed content of the guidance delivered by those it funds or commissions to deliver services.

7.7 A key function of the central body should be the commissioning, analysis, and dissemination of relevant research and insight on how consumers can most effectively be helped to make better financial decisions.

7.8 The importance of this commitment throws in to sharp relief the importance of independence and impartiality in the coordination of guidance services: where the detailed content and delivery of services is exposed to direct political control, the effectiveness and impact of that service will too often be a second order concern.

7.9 MAS has set out its intention to adopt a new corporate strategy which, alongside a gap-filling approach to provision of guidance and information, emphasises a clear focus on developing the evidence base on effective measures to influence financial capability and consumer decisions. (This Corporate Strategy will be set out in the forthcoming consultation version of our 2016/17 Business Plan)This commitment implies a consistent focus on robust evidence and evaluation of all interventions to establish and maintain credibility with those organisations whose own interventions it seeks to influence.

7.10 This role would build upon that of a "what works" centre. The government has made clear that it considers it a fundamental principle of good public services that decisions are made "on the basis of strong evidence of what we know works".[14] The establishment of a network of "what works" centres in 2013 was intended to help support this aim by providing "rigorous, high quality, independently assessed research" to shape decision-making at all levels of government, through "separate, independent, outward-facing organisations that are able to engage with their customer base and evidence communities and tailor their approach and communications to their needs".

---

[13] HM Treasury (2009) *Financial Services Bill: Impact Assessment,* p14. http://webarchive.nationalarchives.gov.uk/20100407010852/http:/www.hm-treasury.gov.uk/d/fin_bill_ias.pdf

[14] Cabinet Office (2013); *What Works: evidence centres for social policy, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/136227/What_Works_publication.pdf*

Independence from government is a core part of the role of the centres, a key factor since the Open Public Services White Paper in 2011 which sought to "consult on how to establish credible accreditation bodies for public services which can mirror the work of NICE [and] explore the creation of independent expert bodies in other areas of public services".[15] In March 2013, the then-CEO of the Economic and Social Research Council wrote that "in particular, the individual centres must be regarded as independent. If they are perceived to be centres sitting inside government, people would simply say these are centres designed to come up with policy-based evidence. That is clearly not the case." David Halpern, the National Adviser on What Works, noted that "their independent status underpins their work, ensuring that commissioners, practitioners and the public can trust their conclusions"[16] and Nesta have noted that "closeness to government is vital for relevance. But we also need to maintain independence, to avoid charges of 'policy-based evidence', biasing the evidence to political needs."[17]

7.11 The role of independent centres working closely with, but separately from government, has been recognised across a wide range or policy areas in the past few years, and is now an established method for producing robust evidence and practical, relevant advice for decision-makers, commissioners, and providers of interventions and services to support the delivery of policy and practice that helps solve significant public policy challenges.

The right incentives to deliver effectively, above all else

7.12 We have described above how the incentives on private and third sector organisations are imperfect and too often undermine effective delivery for consumers. An important benefit of the structure we propose below is that the body accountable for delivery of guidance and financial capability that have clear statutory objectives which are not hostage to the desire to maintain particular delivery models.

7.13 A new body should have incentives only to ensure that delivery is effective and efficient. Judgement would still be required, but any public sector organisation, facing clear public duties and an effective accountability framework, will typically do all in its power to deliver such duties well. The same cannot always be said for organisations that benefit from public funding but which do not have statutory duties to do so, or where statutory duties are in tension with, for example, charitable objectives or organisational structures that provide incentives to meet other objectives.

7.14 An organisation with accountability for delivery of guidance on a range of financial matters would need to make judgements about the appropriate division of effort and resources to each activity. This judgement may occasionally be in tension with the priorities of government or regulators. Should government wish to avoid this eventuality, it can be achieved through two means. First, statutory objectives can explicitly enumerate the specific financial matters that a service should provide. Second, separate funding streams can be maintained to ensure that sufficient resources are directed to priority financial matters. This is exactly the case with MAS's debt advice funding, which is a separate funding block and is reserved for activities to tackle problem debt alone.

---

[15] Cabinet Office (2011); *Open Public Services: White Paper,* https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/255288/OpenPublicServices-WhitePaper.pdf

[16] What Works Network (2014); *What Works: evidence for policy makers, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/378038/What_works_evidence_for_decision_makers.pdf*

[17] Nesta (2014): *Why the What Works Centres are working, http://www.nesta.org.uk/blog/why-what-works-centres-are-working*

7.15 With clear statutory objectives to ensure delivery is optimised to meet consumer need, a new organisation will have the ability to drive greater efficiency from delivery partners, realising available but so far unattained synergies, reducing overlap, and ensuring that delivery partners, in any form, are required to deliver to consumers a more coherent and integrated journey that allows them to get the effective assistance they need to make better decisions.

Statutory objectives to drive efficiency and effectiveness while maintaining adaptability

7.16 The consultation seeks views on the appropriate statutory footing and objectives for the delivery of public financial guidance. We assume that Government wishes to retain a clear entitlement in statute for provision of pensions guidance as currently delivered under the Pension Wise brand. However, MAS also believes there is a need to consider enhancements to the statutory objectives governing provision of general money guidance.

7.17 The Financial Services Act 2010, as amended by the 2012 Act, is quite permissive, and provides MAS with objectives that are open to significant interpretation: no clear hierarchy of objectives or outcomes is implied in the legislation. We believe this reflects the deliberate intention of Parliament to create an organisation that should be able to determine its own strategy and have discretion to adopt whichever delivery method is most effective. This has clear benefits in ensuring that the organisation is able to evolve its approach to meeting its statutory objectives.

7.18 However, there are a number of enhancements that could be made to the statutory underpinnings of a new organisation. The overarching objective of enhancing the ability of the public to manage their own financial affairs, and to understand financial matters, remains valid. But this should be supplemented by an objective that emphasises the need to meet these aims in the most efficient and effective way reasonably possible. MAS believes such a requirement would enshrine the need to focus on procuring the delivery of services based on a robust analysis of value for money and an evidence-based view of what interventions and delivery channels are most effective in enhancing consumer decision making and long term financial capability.

7.19 MAS also believes that the statutory underpinning for a new organisation should require it to coordinate the delivery of a national, multi-agency strategy to enhance financial capability, and to discharge a coordinating role for schools-based financial education activity. Enshrining these roles in legislation would ensure that the organisation remained focused on developing a long te rmview of financial capability

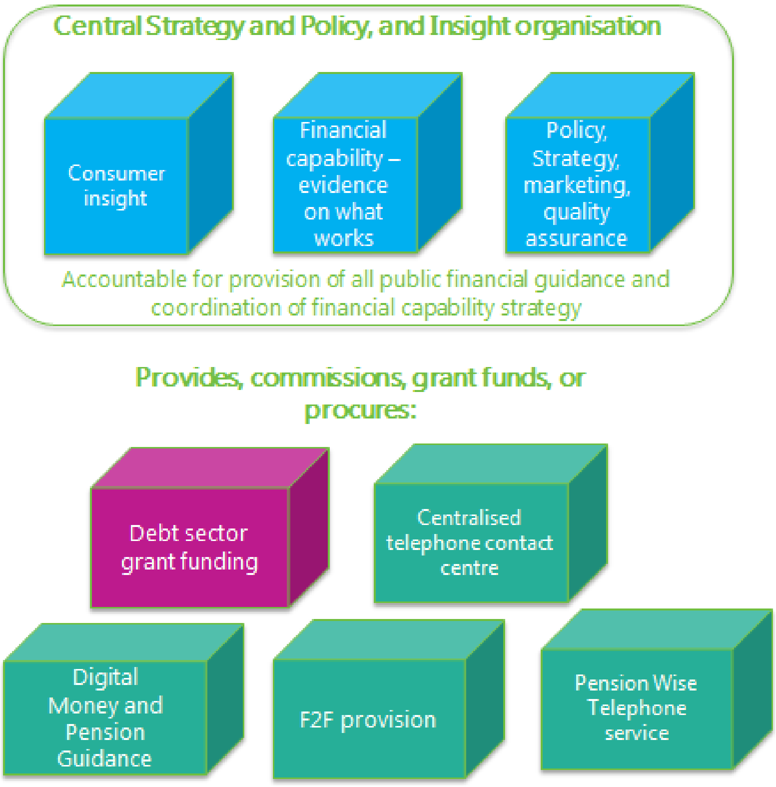
7.20 The new organisation should have statutory responsibility for procuring effective delivery of “guidance guarantee” pensions guidance, and of debt advice provision.

7.21 In addition to drawing on comprehensive consumer insights, the central body should also take on responsibility for financial capability strategy, fulfilling the role that MAS currently discharges and which MAS believes is of absolutely central importance to delivering effective financial guidance. As we have described above, effective delivery of a financial guidance service should be informed by a sound understanding of the factors that weigh on consumers’ financial behaviour, and there is therefore significant merit in retaining responsibility for financial capability and coordination of financial guidance services in a single organisation. Indeed, the Thoresen Review, in considering the appropriate home for responsibility for generic financial guidance services, recommended the service be combined with what was then the FSA's moneymadeclear service explicitly because this would provide the benefit of being informed by the FSA's expertise on financial capability.[18]

7.22 Following the Independent Review of MAS, MAS has taken on the role of coordinating financial education in schools and for children and young people generally. We believe this it is vitally important that this work is effectively coordinated, and propose that the new organisation should have a statutory role in this area. This would provide greater clarity and certainty to the numerous funders and providers of schools financial education, and would improve the coordination of efforts among statutory bodies in the field.

7.23 Figure 7.1 below summarises the possible institutional architecture.

Fig.7.1: Possible structure for reformed public financial guidance institutional architecture



7.24 The central body should be accountable for the quality and consistency of these services, but MAS does not believe it would necessarily deliver them itself. Rather, it would commission, grant fund, or otherwise procure these services from suppliers or delivery partners. This would imply a clear requirement for a strategic commissioning function and a quality assurance function.

7.25 We have not sought fully to scope the size of this central organisation. However, we believe that it would certainly be smaller than the elements of the existing organisations fulfilling these

[18] HM Treasury (2008); *Thoresen Review of generic financial advice: Final report,* p73 http://webarchive.nationalarchives.gov.uk/+/http:/www.hm-treasury.gov.uk/media/8/3/thoresenreview_final.pdf

functions in aggregate, and potentially significantly so, realising efficiencies and cost savings for levy payers, while simultaneously increasing the coherence of service for consumers.

7.26 The front-line delivery of services could take a number of forms. MAS's current view is that delivery should take the following form:

- **Web and other digital delivery on money guidance and pensions guidance:** there is a strong case for a centralised approach to web development, reflecting the need for a central hub to signpost consumers to the most appropriate source of guidance or information, and the maintenance of tools, calculators, etc. which could be used by third parties. Moreover, as the central body would have the role of determining the content of guidance, it would be necessary for development and product management to be highly responsive to changes here.

- **Guidance Guarantee guidance:** we anticipate that a new organisation would be accountable for the effective delivery of Pension Wise guidance, ensuring that sufficient capacity existed through all channels to meet demand.

- **Debt advice, including face to face, telephone, and digital:** we believe the success of the debt advice model, which is characterised by a coherent and high quality delivery framework, must be protected, and we do not see significant change in the delivery model, over and above those currently being implemented, as desirable. However, there may be scope to realise synergies within the funding framework where delivery partners are common between debt advice, pensions guidance, and possibly money guidance.

- **Specialised, non-Pension Wise pensions guidance:** MAS believes it is important to ensure the highly specialised, and highly valued role played by The Pensions Advisory Service is maintained in any new arrangements. The ability to assist consumers with complex pensions queries, and the value of a service which is able to draw on highly experienced volunteers, should be protected. A key consideration for the Government should be how this function can be maintained within any new architecture. MAS believes it is possible to maintain a service with a discrete and specialised purpose within a broader service offer, and to build on it through integration with digital retirement guidance such as the sophisticated tools, calculators, and links to regulated advice currently delivered by MAS.

- **Money guidance:** We envisage some integration of offline channels for money guidance with those for pensions guidance, reflecting the opportunity to develop Pension Wise guidance to be more personalised and responsive to the complexities of consumers' personal finances.

Box 7.1: Public guidance to support significant policy changes

The Money Advice Service currently works closely with government and a wide range of other public and voluntary sector organisations, as well as with private sector organisations across a range of sectors, to make guidance, tools, and calculators available. We have active partnerships with more than 180 organisations.

MAS fulfils a particularly important role as a source of impartial information and guidance on the personal finance implications of significant public policy changes. We provide guidance through all our customer channels. But our services are especially useful as a destination for government to signpost consumers to. Current examples include:

- Developing online budgeting support for Universal Credit recipients, in partnership with the Department for Work and Pensions;
- The government's ownyourownhome.gov.uk website on home ownership support schemes signposts to MAS content on understanding the affordability issues around buying a home;
- We are raising awareness of the availability and features of basic bank accounts, working with DWP;
- The forthcoming Payment Account Regulations will give MAS new duties to raise awareness of the availability and features of basic bank accounts, and to develop a comprehensive payment account comparison tool;
- We are providing budgeting support to unsuccessful applicants for Personal Independence Payment

As the government considers further significant changes to the policy landscape, including possible changes to the tax treatment of pensions saving and the creation of a secondary annuities market, the government will need to consider how such guidance can most effectively be delivered under any future framework for public financial guidance.

An integrated service

7.27 The consultation seeks views on whether the government could offer a more integrated public financial guidance service to consumers, throughout their lives. MAS believes it could, and that the most effective way of achieving such a service is through the structure described above. As described in section 5 above, there are significant opportunities to improve the responsiveness of existing pensions guidance channels, especially Pension Wise, to ensure that consumers can be helped to consider their financial circumstances in the round. But the structure described above, whereby a central organisation has clear objectives to ensure delivery of the most effective services, provides an opportunity to use contractual and grant funding conditionality to drive provision of a more holistic service while maintaining pockets of specialisation and improving "hand offs" between delivery entities.

Box 7.2: A public guidance organisation's potential role in facilitating access to financial advice

A new organisation, recognised as impartial by regulators, the financial services industry, and consumers, could have an important role in assisting consumers to access regulated advice or, potentially, new forms of advice or guidance which may emerge as a result of the Financial Advice Market Review. Indeed, this organisation could have an important role in facilitating the emergence of new advice or guidance models by developing common guidance principles for given financial characteristics, which product providers could use as the basis for product recommendations.

The principal way this role could be delivered, in addition to ensuring that guidance directs consumers to regulated advice where appropriate, is through providing tools and products which advisers and product providers could make use of to better provide accurate advice.

For example, there has long been discussion in the financial services industry of the need for a "portable fact find" which would allow consumers to have one place to hold all their financial records, adding to them and updating them where necessary but in a portable format so that they can be shared with a financial services professional as and when one is consulted. In the context of the FAMR's aim objective of bringing forward measures to facilitate a stronger demand for financial advice, there may be significant merit in considering whether such a tool could be provided by an impartial, statutory entity.

Such a tool could, in future, link to other tools and systems which are either in development, or which are expected to emerge in future, such as the Pension Finder tool (which MAS is currently leading development of with a range of partners) and ultimately a pensions dashboard, which could provide up to date information on an individual's financial situation, for use by advisers.

MAS believes that, post FAMR, and as a result of the outcome of the guidance review, the journey for a consumer, from an initial request for help on any financial matter, to relevant information, to advice (regulated financial advice or debt advice) where appropriate, to a product choice, if appropriate, should be much smoother than at present. In that context, the Government should consider whether public financial guidance has a role to play.

Effective accountability drives efficiency and effectiveness, and secures a long term "licence to operate"

7.28 Any new organisation should be subject to robust accountability measures while ensuring that it is insulated from direct political control. MAS proposes that the existing regime applied to MAS should be retained for a new organisation

7.29 We believe that the existing levy funding model works well and reflects the benefits that will accrue to financial services firms over time from effective guidance and financial capability interventions. In line with the findings of the Independent Review of MAS, however, there is significant merit in broadening the funding base for debt advice services to reflect the benefits to non-financial services creditors that effective debt advice clearly delivers.

7.30 A new organisation, while being subject to appropriate accountability arrangements, should be able to take a long term view to addressing long term, and entrenched, problems, insulated to some extent from daily political headwinds. This was, we believe, a central concern informing the decision to create MAS as an independent organisation with only indirect accountability to HM Treasury. The Government should consider carefully whether the benefits of increasing direct political control over the delivery of financial guidance would outweigh the long term costs in the form of management distraction and regular changes in strategy.

Conclusion

7.31 The government should create a new organisation accountable for the effective provision of money and pensions guidance and financial capability interventions. It shoul d be evidence led and a strategic coordinator, with clear objectives to drive efficiency and effectiveness, and should use ensure that guidance services are integrated and coherent.

8. Conclusion

8.1 MAS believes, and has demonstrated, that public financial guidance and financial capability serve the same purpose – to improve the ability of consumers to make the most of their finances, and to address market failures. But delivering these functions effectively requires the application of carefully targeted incentives and, we believe, strong statutory objectives to deliver effectively and efficiently. The Government's review presents an opportunity to put in place sustainable, accountable, and efficient statutory measures that will serve this purpose for the long term.

8.2 The exact solution to the problem of arriving at a sustainable settlement that meets the needs of Government, consumers, and the economy, is for the Government to determine. It should do so on the basis of the evidence and on the views of the interested parties, including the financial services industry. MAS will continue to work with all interested parties to reach the right outcome.

B: Responses to consultation questions

The responses to specific consultation questions below should be read alongside our general response in Section A.

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?

Consumers' need for financial guidance varies with age. The UK Financial Capability Strategy contains analysis of the different financial capability needs of children and young people, young adults, working age people and older people in retirement.[19] In summary:

- **Children and young people:** Adult financial capability is a direct consequence of what is seen, learned and experienced in childhood and adolescence. Evidence of whether financial education for children and young people is working is mixed.[20] Focus is needed to build the evidence base to understand what works before scaling up interventions.

  Some children and young people face further challenges and will need more support due to the additional responsibilities they face at an early age. The most significant of these are: children in care and care leavers; young carers; and those eligible for Personal Independence Payment.

- **Young adults:** This period of life may be one of significant change and transition, moving from education into work and from home to independent living. The 2015 Financial Capability Survey shows that 18-24 year-olds report lower levels of confidence in their financial capability than the wider adult population.[21] Lack of experience of financial services, in particular credit, can leave young adults vulnerable.

  The key challenge for this group is to manage the immediate financial implications of transitions and to ensure that any decisions taken do not have adverse longer-term consequences, such as the risk of tipping into problem debt or of opting out of a workplace pension. Groups particularly at risk include those leaving care or youth detention and young adults with learning disabilities.

- **Working age people:** Financial capability interventions for this age-group need to address diverse needs and experiences including the financial pressures of making ends meet, balancing costs and commitments day to day with longer-term goals like buying a home, starting a family or planning ahead for later life.

  For many working-age people the immediate priority is either to avoid or pay down problem debt. A key challenge for this group is to improve their financial resilience by focusing on the capability to save for the future, plan ahead and manage life events. There is a considerable savings gap – only 28% of working age people have savings equal to three months' income.[22]

  Unpredictability of income can make it harder for some to manage their money well day to day and create barriers to planning ahead. We have found that the unemployed, people on benefits being replaced by Universal Credit, people in social rented accommodation and social grades D and E score worse than average across one or more financial capability behaviour domains – i.e.

[19] Financial Capability Board (2015) UK Financial Capability Strategy with supplementary evidence and analysis

[20] Money Advice Service, Evidence Hub at www.fincap.org.uk/evidencehub - The Evidence Hub has been developed by the Money Advice Service and independently quality assured by the Personal Finance Research Centre (PFRC) at the University of Bristol.

[21] Money Advice Service (2015) Financial Capability in the UK 2015, p43

[22] Money Advice Service (2015) Financial Capability in the UK 2015, Table 2: Preparing for and managing life events – proportions reaching thresholds, p18

managing money well day to day, preparing for and managing life event and dealing with financial difficulties.[23]

- **Older people:** Retirement presents a new set of challenges with the focus of money management moving from saving to spending. The key challenge for this group is the need to manage financial resources over their entire retirement. Balancing the need to make ends meet day to day while preparing for and managing expenditure related to life events, especially declining health and potential care costs.

  Declining health and technological advances mean that older people's ability to manage their money and access to guidance can be hampered by the ease and accessibility of products and services. Services that assist older people to maximise their income, through accessing available benefits and shopping around, and safeguard them from fraud, financial abuse are needed.

Other people with protected characteristics under the Equalities Act 2010 who have particular needs for public financial guidance include:

- **Disabled people**: The Extra Costs Commission identified the significant extra costs disabled people face. The Commission identified the importance of consumer empowerment in enabling disabled people to drive down additional costs of disability.[24] As well as providing information about accessing available disability benefits, Money Advice Service has worked with Scope to develop its information resources, so that they have a greater focus on the needs of disabled people as consumers.

- **People with mental health issues:** The incidence of mental health is very high amongst debt clients. Half (52%) of the clients our projects saw were diagnosed with a mental health condition of some kind. Of these the majority had been diagnosed with depression but many also mentioned other mental health issues.[25] Those with mental health conditions were significantly more likely to have experienced some of the consequences of debt problems; most notably a court summons (39% vs. 29% of those without a diagnosed mental health condition), having a pre-payment meter imposed (22% vs.14%), having a telephone landline cut off (18% vs. 11%) or having a mobile phone service cut off (18% vs. 13%).[26]

  While debt advice is effective, with 93% of clients who agreed actions with their advisor going on to progress at least one of them[27], people with diagnosed mental health conditions were less likely to understand what they had to do next following their debt advice session than other clients (10% vs. 4%).[28] This indicates that there is a particular need for debt advice which is targeted towards meeting the needs of people with mental health issues.

- **Pregnancy and maternity**: Money Advice Service research identified that half of parents underestimated how much they would spend preparing and caring for their first baby in its first

[23] Money Advice Service (2015) Financial Capability in the UK 2015, Table 4: Groups which score worse than average across one or more behavioural domains, pg22
[24] The Extra Costs Commission (2015) Driving down the extra costs disabled people face
[25] Money Advice Service (2014) The Money Advice Service Debt Advice Review 2013/14, pp12-13
[26] Money Advice Service (2014) The Money Advice Service Debt Advice Review 2013/14, p16
[27] Money Advice Service (2014) The Money Advice Service Debt Advice Review 2013/14, p4
[28] Money Advice Service (2014) The Money Advice Service Debt Advice Review 2013/14, p38

year.[29] People need financial guidance to help them understand their maternity income and budget expected expenditure throughout pregnancy and maternity. Money Advice Service offers a baby money timeline that lists of all the money-related dates to do with pregnancy and new baby. It covers everything from arranging maternity leave to going shopping for baby things and claiming Child Benefit.

- **Black and Minority Ethnic**: The Financial Capability survey has identified that BAME people scored significantly worse than the UK average at managing money well day to day and dealing with financial difficulty. BAME people also scored slightly worse than the UK average at planning for and managing life events.[30]

  Evaluation of our funded debt projects highlights debt client profiles in relation to BAME clients. Across, while the ethnicity profile was similar to that of the population across England and Wales, clients from ethnic minorities were more likely to be Black/Black British and less likely to be Asian than the general population.[31] The ethnicity of clients of individual projects varied significantly reflecting the profile of the areas in which the projects were based.[32] Debt advice clients from ethnic minorities were less likely to understand what they had to do next following their debt advice session than white British clients (12% vs. 6%).[33]

Q2. What additional, or alternative functions and structures could a statutory body put in place to effectively coordinate debt advice provision?

Under the Financial Services Act 2012, MAS was granted powers to work with other organisations that provide debt services, with a view to improving:

(i) the availability to the public of those services;

(ii) the quality of the services provided;

(iii) consistency in the services available, in the way in which they are provided and in the advice given

We do however, believe that there is more structural change that could happen, which would enable more people to be helped by debt advice. MAS would like to see the seeking of advice being made more attractive, and provide more protections for those in debt.

MAS believes that a vital component of getting more people into Debt Advice, helping those already in debt and ensuring debtors receive consistent treatment is good forbearance by creditors. Current regulation of forbearance standards are variable across key creditor sectors and is not able to guarantee that people seeking help with problem debts will get the protection they need.

We believe there is much to be learned from the DAS Scheme in Scotland. This scheme offers two connected protections that debtors in England and Wales could also benefit from, namely;

[29] Money Advice Service (2012) Parents caught out by baby costs
[30] Money Advice Service (2015) Financial Capability in the UK 2015, p46
[31] Money Advice Service (2014) The Money Advice Service Debt Advice Review 2013/14, Figure 1, pp10
[32] Money Advice Service (2014) The Money Advice Service Debt Advice Review 2013/14, p11
[33] Money Advice Service (2014) The Money Advice Service Debt Advice Review 2013/14, p38

- A six week ‘breathing space period’ applicable to all Scottish statutory debt solutions, where further interest, charges and enforcement action are suspended while a person seeks advice to apply for a debt solution.
- A statutory Debt Payment Plan where people can repay debts in an affordable way that breaks the vicious circle and helps recovery. While payments under a DPP are being made interest, charges and enforcement action remain frozen.

In order to help the sector be coordinated in its response and treatment of debtors, we would encourage the government to consider the applicability of principles of DAS, for England and Wales and ultimately consider the introduction of a ‘breathing space’ scheme.

While we would welcome the strengthening of statutory powers, we have used our remit to provide a robust framework for action for us, together with the sector, to put in place a long-term strategy that has, and will continue to transform the advice sector to make it more effective for clients and creditors alike. The current Guidance review, as well as the Farnish review before this, recognised MAS's achievements in debt advice and the strides that have been made in coordinating the sector since 2012 to deliver significant improvements in efficiency and in quality of debt advice.

As part of achieving our aim and in line with our objectives around consistency, we continue to develop tools for the sector to ensure high quality and consistent outcomes for debt advice consumers. We are in the advanced stages of developing the Standard Financial Statement, which works towards bringing greater consistency to the measurement of income and expenditure and, thus, to repayment offers made to creditors. Our evaluation framework has enabled us to measure performance across the sector, and we have made this available to organisations involved with advice services, even when we are not in a funding relationship with them. We have taken an evidence based approach in commissioning services to ensure that funding is allocated in an intelligent manner to address actual gaps in provision. In addition, we have developed for the sector, the Common Initial Assessment- a tool for common usage of a front end system, which triages consumers into the most appropriate advice channel.

However, as the consultation document notes, the implementation of these recommendations requires significant cooperation from the debt sector. To that end, MAS has taken on board the recommendation from the Farnish review and formed the Debt Advice Steering Group to help us achieve the aim of getting more people into advice earlier in a strategic and coordinated way. We continue to use this steering group as a vehicle for brokering agreement on provision of these initiatives.

As we continue to shape the debt sector for the better, we are seeking to integrate channels into debt advice through various other partners, particularly those who interact with people at specific ‘life-stages’, such as having a baby or being bereaved. As an example, we are currently examining the possibility of working with GPs across the UK to refer people to debt advice where appropriate. Our pilot projects in Scotland helping marginalised groups engage with debt advice were largely successful and demonstrated the value that can be gained from partnership working. In order to assist with this work, MAS would continue to seek ongoing support from associated bodies such as FCA and HMT, so that the ‘regulatory family’ is visibly aligned.

Q3. What role should a statutory advice body have in providing quality assurance and setting standards for debt advice?

The Government has made clear through the Financial Services Act 2012 its expectation that MAS will increase the quality, availability and consistency of debt advice in the UK. The Quality Framework is a substantial part of our work to achieve this and has broad support across the advice sector.

The Quality Framework goes above and beyond FCA requirements and address' a gap in the sector to get organisations to work to the same high quality standards. This has been well received by stakeholders and we will keep on using it to benchmark the services we fund, and would encourage other funders to do so too. As with all of our other tools, we are open to sharing these with organisations if it works towards driving up standards in the debt sector, irrespective of whether we have a direct funding relationship with organisations.

Relationship with FCA

The consultation notes that concerns have been expressed with regards to the potential for 'double regulation'. MAS does not believe that its role in relation to driving quality in the sector amounts to double regulation. Our work goes beyond technical requirements set out by the FCA, and we would always remain open to discussions with FCA, if they wished to build the Quality Framework, or aspects of it, into the regulatory architecture.

As the FCA and MAS have a number of similar objectives for debt advice, it is to be expected that the two regimes follow some similar broad principles and that the detail contained within is complementary. While there is some cross-over between MAS expectations in the Quality Framework and the FCA principles, rules and guidance, the key difference is in the context of how they operate. The broad differences and remits are as follows:

The FCA

- Sets the minimum technical standard required to operate in the debt advice market. Its requirements set out the broad outline of providing debt advice without granular detail about most aspects of service delivery.
- It has formal powers to take action against a provider failing to meet the standards required, including fines, suspensions and bans.
- A provider cannot offer debt advice without FCA authorisation.

MAS

- The quality framework complements the FCA requirements, providing more granular detail about service delivery and how to achieve high quality debt advice above and beyond the minimum standard. The Quality Framework may highlight areas for development for an organisation or an individual.
- The quality framework contains content outside of the technical requirements of debt advice delivery and focuses on developing the organisation.
- While it can influence funding, MAS has no formal powers to stop a provider offering debt advice if it fails to achieve the quality standards.
- For organisations, it goes beyond the remit of the FCA regime to consider areas such as data gathering, self-evaluation and requiring debt advice staff to have the appropriate technical knowledge and skills for their work.
- For individuals, it goes beyond the remit of the FCA regime to consider areas such as use of empathy, the environment in which debt advice is delivered and encouraging shopping around for better deals on household bills.

Ultimately, meeting the FCA requirements would not automatically mean a provider was meeting the Quality Framework and vice versa.

Q4. What scope is there to rationalise the funding of public financial guidance provision on debt?

The benefits of debt advice are broad and accrue to services beyond the financial sector and limited number of priority creditors. As the government's consultation document notes, the budget for debt advice was supplemented by a voluntary £2m contribution from the utilities sector in 2015/16. The principle remains that firms contributing to the debt advice levy benefit from their customers receiving debt advice so they are better able to pay back money borrowed. MAS believe that more organisations should be contributing to the funding of debt advice services in a systematic way. This is because the impact of debt, and moreover, the benefits of debt advice, are broad impact on public and private institutions beyond financial services.

StepChange research with their clients showed that the social cost on society for problem debt is £8.3Billion per annum and for every pound StepChange spend on advice, the external benefit to society it generates is £12. [34]

Meanwhile, the Financial Inclusion Centre analysed Hyde Housing clients[35] usage of debt advice and concluded that there are significant financial benefits to be realised from direct debt advice interventions- estimating a financial return of 22% (for every £100 spent, there is a £122 financial gain to be made).

The above research has been limited to the organisations' client groups, and MAS will also be conducting research to address any gaps. It is expected that significant benefits to society resulting from debt advice will be demonstrated at the national level. Part of the reason for this is because we know debt advice works. People get out of debt more quickly and are more likely to be resilient to future income shocks if they have had advice – so we need to ensure that people are able to access the services that are available over the most appropriate channel. Independent evaluation of debt advice funded by the Money Advice Service in England and Wales shows that 88% of clients who received face-to-face debt advice from its partners in 2013, went on to take a positive action such as making reduced payments to creditors, or setting up a household budget to address their debt situation. As a result, 76% reduced or cleared at least some of their debts within three to six months of receiving advice. Six per cent were able to pay off their debts in full.

<u>Levy fees</u>

The fees are charged proportionally and per annum, and are based on a principle of customer usage and financial parties that benefit from debt advice. The formula is constructed from factors such as the data MAS gathers on how people use its advice services (this is the "usage" part of the allocation) and data from Bank of England on lending and write off levels, on both secured and unsecured debt.

To that end, MAS continue to be observant of client 'usage' to be mindful of sectors that may benefit from funding of debt advice services and should play a role in debt advice contributions.

We intend to steadily increase our capacity to bridge gaps between provision and need over the coming years and will work with other funders to ensure that evidence of need is central to funding decisions. The recent history of debt advice provision shows that it has been possible to generate a

---

[34] https://www.stepchange.org/Portals/0/documents/media/reports/8_billion_challenge.pdf

[35] Financial Inclusion Centre (2011) *Does Debt Advice Pay? A business case for social landlords, Final Report* http://inclusioncentre.co.uk/wordpress29/wp-content/uploads/2011/12/Does_Debt-Advice_Pay_A-Business_Case_for_Social_Landlords_Final_Report.pdf

250% increase in debt advice sessions for only 28% more finding, while maintaining equal or better outcomes. The principle that debt advice should be provided through the most appropriate channel for the individual client needs will continue to inform our approach. In addition, given our commitment to evidence based commissioning we would be an ideal organisation to make sure that funding for advice is used as effectively as possible across the UK – our co-funding partnership with the Scottish Government being an excellent example of this.

It is important that funding streams continue to be well coordinated to avoid duplication.

The services that MAS grant-fund and manage through the bulk of its debt advice budget have a distinct delivery model and support a quite different segment of the over-indebted population than those served through 'fair-share' funded services and the fee-charging sector. (This is an important principle to maintain in order to avoid duplication across the sector and relies on strong lines of communication between funders.) We have been pleased to see the funding base for 'fair-share' broaden since levy funding was introduced in 2012 and our discussions with creditors suggest that the distinctions between the different services are well understood. We do not believe that levy funding has, or is likely to, displace other sources of funding.

Q5. What additional, or alternative functions and structures could a statutory body put in place to effectively coordinate public financial guidance on pensions?

Please refer to Section 5 of Part A, where we set out the need for greater responsiveness and a more integrated approach to providing financial guidance, which takes the limitations of existing pensions guidance provision as an example, and Section 7 of Part A, which explains our proposal for structural reform.

Q6. How could the organisational delivery of public financial guidance on pensions be improved to provide greater efficiency?

Q7. What scope is there to rationalise the funding of public financial guidance provision on pensions?

Please see sections 5 and 7 of our main response, which sets out our view on the significant opportunity to realise efficiencies by reducing duplication, and by placing a clear statutory responsibility on a central coordinating organisation to procure guidance services in the most efficient way possible.

We believe there is significant scope to achieve operational efficiencies in the delivery of pensions guidance through application of clear and consistent quality assurance mechanisms and an efficient channel strategy, and by calibrating supply of pensions guidance services to long term demand.

Q8. Are the statutory objectives underpinning MAS the right ones?
Please see section 7, which provides MAS's detailed thoughts on the most appropriate statutory objectives for a body coordinating effective delivery of guidance services and financial capability activity.

However, there is one minor supplementary comment to be made regarding the statutory framework, which is more by way of "tidying up". MAS is currently required by statute to consult the Secretary of State for Business, Innovation and Skills (BIS) on its draft business plan every year. However, BIS has informally indicated that because consumer credit responsibilities have passed to

HM Treasury, it no longer has an institutional interest in commenting on the annual business plan, and in 2015 wrote to MAS to decline to do so.

MAS therefore believes that, subject to a final formal confirmation to HM Treasury from BIS that this institutional interest has expired, statute should be changed to remove BIS from the list of statutory consultees of MAS or any future envisaged body combining different statutory functions.

As MAS or any future body would publish its business plan for public consultation in any event, such a move would in no way inhibit BIS from choosing to comment if circumstances or plans arose where it felt it indeed had an interest.

Q9. What role, if any, should a statutory body have in providing general money guidance?

Please see sections 2, 4, 5, and 7 of our main response, together with Annex A, which set out MAS's view on the need for involvement of a statutory body in these activities. However, it is important to note that these comments do not necessarily refer to the role of a statutory body in *delivering* general money guidance. While this may be a good outcome in some cases (especially digital guidance, where there may be clear advantages in ensuring that digital services are delivered and maintained by a central coordinating body), MAS believes the question of which entities actually deliver services should flow from an analysis of which model offers greatest effectiveness and efficiency. We anticipate that the appropriate delivery agents will differ by channel and subject matter, though it is likely that significant voluntary sector organisations, and specialist providers such as The Pensions Advisory Service will continue to play an important role.

Q10. What role, if any, should a statutory body have in supporting financial capability?

Please see our main response, where we set out the central importance of financial capability to effective delivery of other services and improving the effectiveness of other government and regulatory initiatives.

Q11. What scope is there to rationalise the funding of public financial guidance provision on money matters and / or financial capability?

Please see sections 5, 6, and 7 of our main response, which set out our view on the significant opportunity to realise efficiencies by reducing duplication, and by placing a clear statutory responsibility on a central coordinating organisation to procure guidance services in the most efficient way possible.

Q12. How do you think that the government could best complement voluntary sector provision of financial guidance?

Please see section 4 of our main response, which explains the role of government, broadly defined, in bringing greater coordination to delivery of services and financial capability interventions by a wide range of voluntary organisations, and the importance of government incentivising voluntary sector providers and funders are focused on developing and delivering services and other interventions that are based on robust evidence of "what works".

Q13. Do you think that the government could offer a more integrated public financial guidance service to consumers, throughout their lives? How do you think this could be achieved?

Section 7 of Part A discusses the need to offer a more integrated service to consumers, and outlines the importance of clear statutory objectives and effective coordination of various delivery bodies, in achieving this.

Q14. Do you think the government should explore any alternative options for the provision of public financial guidance?

MAS believes that if the long term solution the Government reaches is to have widespread support, the Government should consider all reasonable alternative options. Section x of our main submission discusses why two major alternative options – voluntary industry activity and direct funding of voluntary sector organisations, would be unlikely to offer good value for money or sufficiently complete or uniformly high quality provision.

The government's consultation suggests that one alternative option may be providing vouchers to consumers to seek financial guidance. MAS believes this proposal has substantial weaknesses. Distributing (or, more likely, making available through proactive consumer action) vouchers for guidance, which could be delivered by private or voluntary sector organisations, would be unlikely to lead to equitable outcomes, and would be likely to lead to many consumers who would benefit from guidance failing to access services they were entitled to.

Experience from the introduction of Child Trust Funds provides a useful of example of the risks of undesirable distributional effects and deadweight costs of this method of provision. Vouchers made available to all new parents were utilised disproportionately by higher income households, and there was a strong correlation between household income and likelihood of utilisation.[36] Moreover, the financial capability of parents was identified as a strong factor in differential take up Child Trust Fund vouchers. Given that Child Trust Funds were effectively "free money", and the benefits to taking financial guidance are much more opaque, it is likely that the deadweight costs and regressive distributional impacts of a voucher solution would be more severe if applied to financial guidance.

MAS believes voucher systems tend to be more suitable in markets where the need is "one off" or similarly irregular (such as with Child Trust Funds) or where the future need for the good can be easily forecast. But, with the exception of pensions guidance as currently delivered through Pension Wise, public financial guidance does not fit in either category. Vouchers are unlikely to lead to consumers taking regular guidance. Aside from this, much of public guidance as currently conceived is delivered free of charge, digitally, or through printed materials distributed at particular life stages. It is difficult to conceive of how a voucher system could replace these methods of delivery.

However, if government seeks to reduce the total amount of guidance sought or consumed by the public, vouchers may be a reasonable solution, while also maintaining a "backstop" form of provision. FCA research suggests that consumers are put off seeking advice because they don't know how to judge its quality. Cost of regulated advice was seen as a barrier to advice rather than a sign of quality.[37] This suggests that creating additional *choice* of financial guidance may not be helpful for consumers, but clear and easy access to a single source of financial guidance may have more positive results. Therefore, a voucher system would be likely to reduce the incidence of consumers taking up free guidance.

In the context of parallel consideration of the future of regulated financial advice in the Financial Advice Market Review, a voucher system may also be a good method of providing a public subsidy to

---

[36] Kempson, E; Finney, A; Davies, S (2011) *The Child Trust Fund: Findings from the Wave 2 Evaluation,* p9 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/360495/Report_143.pdf

[37] "Exploring Consumer Decision Making and Behaviour in the At-Retirement Landscape", by Ignition House for the FCA, December 2014

the regulated advice sector, which may choose to accept vouchers as a route to developing longer term client relationships. There may be sound public policy imperatives for seeking to implement such a subsidy.

Q15. Are the suggested core services the right ones? Should any core services be added?
MAS believes general money guidance and financial capability must be considered core services. As financial services products become more sophisticated, and consumers are required to take ever more personal responsibility for their own finances, MAS believes no objective analysis would determine that increasing the UK population's financial capability – both through providing assistance at discrete decision points and over the longer term – should not be considered priority services. Unless sustained efforts to identify and implement measures to increase financial capability are undertaken, the demand for debt advice will increase, and the inadequacy of pensions guidance is likely to become ever more apparent.

Q16. Are the suggested principles the right ones to underpin the statutory provision of the core services? Should any principles be added or removed?
Please see section 7 – and specifically paragraph 7.3 - of our main response.

Q17. Do you think that statutory provision should be restructured to improve the guidance service to consumers, and if so, how?

Section 7 of our main response sets out how MAS believes the structure of public financial guidance should be reformed.

Annex A: financial capability and financial literacy evidence review

1. This annex provides a brief overview of established and emerging evidence on the impact of financial capability on individuals' financial behaviour and wealth, and on the broader economy, including via indirect impacts on financial stability.

2. When assessing the evidence base on the impact of financial capability on financial decision making, and the impact of interventions to improve financial capability, it is important to understand a key limitation on the evidence. Most of the literature assesses the impact of financial "literacy", typically measured by some combination of skills – such as the ability to perform a simple interest calculation, and knowledge, such as knowledge of different financial products. A fuller assessment of financial capability would consider the importance of attitudes and motivation towards financial matters, including motivation to take control of one's personal finances, and self-control. We therefore expect that many studies that assess the importance of financial literacy are likely to *underreport* the potential impact of measures to increase financial capability.

3. Even where delivered successfully, the returns to financial capability interventions will often be uncertain or difficult to isolate, and in many cases are likely to materialise over many years. In considering the likely benefits of establishing a generic financial guidance service, a cost benefit analysis commissioned by the Thoresen Review assessed the economic gains over a period of 52 years, reflecting the longitudinal impact of increased capability on individual and firm level outcomes.

4. Many of the benefits of increased financial capability are likely to be of indirect economic benefit, and manifest themselves in improved psychological wellbeing and mental health, leading to increased labour productivity. Analysis of the British Household Panel Survey, commissioned by the Financial Services Authority and published by MAS, suggests that historical financial capability has "statistically significant impacts on people's life satisfaction, lifsestyle, propensity to save and to save regularly, and household income in later years, and these effects remain even when allowing for contemporaneous financial capability" and "long lasting effects on their mental health, living standards, savings behaviour, and household income".[38] A separate study, funded by but independent of MAS, by the same authors, finds that financial capability has impacts on psychological wellbeing that "dwarf those associated with raising household incomes, which indicates that the ability to manage income is more important than the level of income in determining psychological wealth" and that "improving people's financial financial management skills would have substantial effects on stress related illnesses and the outcomes associated with such problems, and therefore have lasting benefits for individuals and the wider economy".[39]

[38] Institute for Social and Economic Research (2011) *The long term impacts of financial capability: Evidence from the BHPS*, CFEB Consumer Research Report 03, p100
https://www.moneyadviceservice.org.uk/files/research_feb11_cr03.pdf

[39] Taylor,M, Jenkins, S, Sacker, A (2011) *Financial capability, income and psychological wellbeing.* Institute of Social and Economic Research Working Paper Series,
https://www.iser.essex.ac.uk/research/publications/working-papers/iser/2011-18.pdf

Financial capability and financial wealth

5. There is increasing empirical evidence that financial capability is linked with improved financial decisions and outcomes. Research using comprehensive data on Dutch households finds that financial literacy is positively related to retirement planning and that overall, even after controlling for many other determinants of household wealth, financial literacy has a strong direct and indirect link to household wealth accumulation.[40] A recent study of the impact of financial literacy on savings returns finds that a one standard deviation difference in increased financial literacy leads to an average increased yield on cash savings of 33 basis points, equating to approximately EUR947 over 10 years in real terms.[41]

6. Recent research from the European Central Bank using comprehensive panel data on German household finances found that "...despite the moderate impact of the financial crisis on households... the long run effects on wealth distribution can be substantial. The reason is that households with higher levels of financial literacy are better at reacting to a shock like the financial crisis compared to households with low financial literacy.[42]

Efficacy of financial capability interventions

7. The Money Advice Service has launched an online Evidence Hub to make available selected evidence on the effectiveness of a range of financial capability interventions, along with an assessment of the strength of the evidence supporting findings.[43] The Evidence Hub has a much wider range of examples than can be included here. Instead, we present below a small selection of studies most illustrative of the potential of large scale financial capability interventions to influence consumer financial capability and behaviour. We encourage the government to review the Evidence Hub in reaching a view on the long term value of public investment in financial capability.

8. A World Bank experiment conducted in India (among consumers with low financial literacy) suggests that though financial education initiatives appear to lead to "large and statistically significant improvements in individuals' awareness of financial products and services available to them, as well as their familiarity about the details of such products and services". Respondents who had received financial literacy training were five percentage points more likely to be familiar with the concept of a household budget, and 20 percentage points more likely to understand the concept of an unproductive loan.[44]

---

[40] van Rooj, M; Lusardi, A; Alessi, R.J. (2011): *Financial Literacy, Retirement Planning, and Household Wealth*; National Bureu of Economic Research Working Paper 17339 http://www.nber.org/papers/w17339.pdf

[41] Deuflhard, F; Georgarakos, D; Inderst, R (2015), *Financial Literacy and Savings Account Returns*; Goethe University Frankfurt, Institute for Monetary and Financial Stability Working Paper Series, http://www.imfs-frankfurt.de/fileadmin/user_upload/IMFS_WP/IMFS_WP_88_Inderst.pdf

[42] Bucher-Koenen, T; Ziegelmeyer, M (2011); *Who lost the most? Financial Literacy, cognitive abilities, and the financial crisis*; European Central Bank Working Paper No.1229 https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1299.pdf

[43] Money Advice Service/Financial Capability Board Evidence Hub: http://www.fincap.org.uk/evidence_hub

[44] Carpena, F; Cole, S; Shapiro, J; Zia, B (2011): *Unpacking the Causal Chain of Financial Literacy*, World Bank Policy Research Working Paper 5798 http://www.wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2011/09/19/000158349_20110919154530/Rendered/PDF/WPS5798.pdf

9. A comprehensive evaluation by the World Bank of a programme aimed at school students in Brazil, with intervention design that aimed to have a "trickle up" effect on the financial behaviour of parents, found a positive effect on financial behaviour of parents (as measured by savings rates) and mindset (including incidence of household budgeting).[45]

Financial Stability impact of financial capability

10. The importance of unsustainable levels of personal/household debt in undermining financial stability is increasingly well understood. An influential recent study suggests that the correlation between large increases in household debt and significant economic downturns is "as close to an empirical law as it gets in macroeconomics".[46]

11. Financial capability has the potential to have a significant impact on financial stability in the context of a tightening of monetary policy. Recent research using evidence from the Danish mortgage market suggests significant differences in the propensity of different groups of consumers to respond to incentives to refinance mortgage debt. Though this study finds that households with high property wealth relative to financial wealth are more responsive to incentives to refinance, it also suggests that lower income households with relatively high mortgage debt are less responsive to such incentives than are other groups.[47] The relatively significant costs of mistakes in mortgage decision making (including the failure to respond to incentives to refinance) suggest that in the context of medium term tightening of monetary policy, those households exhibiting lower financial capability represent a particular risk to stability. While regulatory measures, such as the use of the Financial Policy Committee's powers to limit particularly risky lending practices, can offer an important safeguard against such risks materialising, MAS believes there is scope to partially address such risks in the longer term without recourse to regulatory intervention (and its attendant distortive effects on the market), by investing in increasing financial capability.

The economic impact of money guidance and financial capability

12. The economic impacts of well-delivered money guidance and financial capability are not currently well understood. MAS has recently commissioned Europe Economics to assess the likely economic impacts of increases in the financial capability of the UK population. The draft methodology for this study was shared with HM Treasury officials in October 2015 and we will make the results of this analysis available to the Review team when it is complete early in 2016.Initial results suggest that modest improvements in financial capability across the whole UK population are likely to carry benefits to household wealth with a NPV of £68 billion over

---

[45] World Bank (2014). '*Enhancing financial capability and behaviour in low- and middle-income countries*', Financial Literacy and Education Russia Trust Fund http://documents.worldbank.org/curated/en/2014/01/19770351/enhancing-financial-capability-behavior-low--middle-income-countries

[46] Mian, A; Sufi, A (2014), *House of Debt; How they (and you) caused the Great Recession, and how we can present it from happening again,* University of Chicago Press, p9. The authors demonstrate that there is a direct causal relationship between increases in household indebtedness, reductions in property values, and reductions in consumer spending during resultant recessions. They do not address the impact of financial capability or literacy on this process.

[47] Anderson, S; Campbell, JY; Nielsen KM; Ramadorai, T (2015); *Inattention and Inertia in Household Finance: Evidence from the Danish Mortgage Market* *http://scholar.harvard.edu/files/campbell/files/andersencampbellnielsenramadorai_24june2015.pdf?m=1435178061*

30 years.[48] (This figure does not currently take account of benefits and costs to the financial services industry, to the Exchequer, or to the wider economy).

13. Previous efforts to assess the long term economic benefits of improvements in financial capability have been relatively rare. A cost benefit analysis conducted for the Thoresen Review in 2008 assessed the likely impacts of a specific set of interventions, and concluded that the NPV benefits would lie in the range £22bn to 26.5bn over 52 years. However, this assessment rested on a number of assumptions about the reach and the delivery model for a generic guidance service that are unlikely to hold today (e.g. a focus on face to face and telephone delivery) and did not assess the benefits of greater consistency and use of evidence based interventions by other organisations as a result of a strategic approach to financial capability.

14. Analysis using a Computable General Equilibrium model of the Australian economy, conducted by Monash University in 2004, suggested that relatively modest improvements in financial literacy would have significant economic benefits, raising incomes among low income families and delivering net economic benefits of AUS$6.2billion per annum (in 2004 prices) over the long term.[49]

Impact of debt advice

15. The impact of debt advice interventions appear to be unambiguous. Independent evaluation of debt advice services funded by the Money Advice Service in England and Wales shows that 88% of clients who received debt advice from our partners in 2013, went on to take a positive action such as making payments to creditors, or setting up a household budget to address their debt situation. As a result, 76% reduced or cleared at least some of their debts within three to six months of receiving advice. Six per cent were able to pay off their de bts in full.[50] Clients also noted improvements in their mental health, relationships and ability to sleep.
16. The positive outcomes of debt advice are also reflected in other research. The Financial Inclusion Centre analysed Hyde Housing clients' usage of debt advice and concluded that there are significant financial benefits to be realised from direct debt advice interventions, estimating a financial return of 22% (for every £100 spent, there is a £122 financial gain to be made).[51]
17. Similarly, Friends Provident Foundation research sought to understand debt advice from the perspective of a range of private sector creditors, including banks, consumer credit lenders and utility firms by devising a model that enabled the quantification of the impact of independent debt advice on such creditors. This research reported that creditors on average

---

[48] Europe Economics (2015/16, forthcoming): *The Impact of Improved Financial Capability: Interim results*.
[49] Commonwealth Bank Foundation (2004), *Improving Financial Literacy in Australia: Benefits for the Individual and the Nation",* https://www.commbank.com.au/about-us/download-printed-forms/2010commbankfoundation-improving-financial-literacy.pdf
[50] Optimisa Research (2014) *The Money Advice Service Debt Advice Review 2013/14* https://www.moneyadviceservice.org.uk/en/corporate/optimisa
[51] Financial Inclusion Centre (2011) *Does Debt Advice Pay? A business case for social landlords, Final Report* http://inclusioncentre.co.uk/wordpress29/wp-content/uploads/2011/12/Does_Debt-Advice_Pay_A-Business_Case_for_Social_Landlords_Final_Report.pdf

recover 51% (amounting to £12.6bn) of the debts owed, whereas without debt advice, they would only recover 46% (amounting to £11.3bn) of the debts owed. [52]

18. Whilst the principle remains that firms contributing to the debt advice levy benefit from their customers receiving debt advice so they are better able to pay back money borrowed, we also know that the benefits of debt advice are broad and accrue to services beyond the financial sector and a limited number of priority creditors.

[52] Wells, J, et al (2010) *The Impact of Independent Debt Advice Services on the UK Credit Industry* http://www.friendsprovidentfoundation.org/wp-content/uploads/2013/03/Jackie_Wells_-_Debt_Advice_-_Full_Report.pdf

Annex B: The International Context

1. MAS does not believe that widespread international adoption of a given policy or delivery mechanism, of itself, represents a compelling reason for the UK to adopt a similar approach. Nonetheless, it is instructive to consider the degree to which developed country governments, regulators, and central banks across the world have begun to invest in efforts to improve financial capability and provide generic financial guidance. (In part, such efforts have often been informed by the UK experience following the Financial Services Authority's first Financial Capability Strategy in 2006).

2. Figure B.1 below illustrates the widespread adoption of financial capability initiatives and the provision of money guidance. It shows those countries where there is either a financial capability/financial literacy strategy in place, or where one is being developed. We have so far been unable to verify the level of development of such strategies in all countries. But in all the jurisdictions highlighted, we are aware of some concerted, state-supported and state – (or central bank-) funded activity to improve financial capability and/or provide financial guidance. We provide brief details of a number of key comparator countries with our own interpretation of their focus and principal activities

3. An important initial observation is that generally, in those countries with highly developed financial services sectors *and* broadly democratic institutions and effective consumer protection frameworks, there is a clear commitment to public support for financial guidance and financial capability interventions.

4. A notable exception appears to be the Nordic counties. Our analysis of provision in these counties is incomplete. However, we believe that though they do not have comprehensive financial capability strategies, in at least one country – Sweden – there is comprehensive financial guidance provided by a state agency.[53] Moreover, the Nordic countries are characterised by relatively high levels of financial capability, a strong cultural imperative to save and, vitally, financial products (especially retirement products) that provide a high level of protection against costly financial mistakes.

[53] Swedish Consumers' Banking and Finance Bureau is an initiative of the Swedish consumer agency, the financial services regulator, and the principal Swedish financial services trade organisations. http://www.konsumenternas.se/

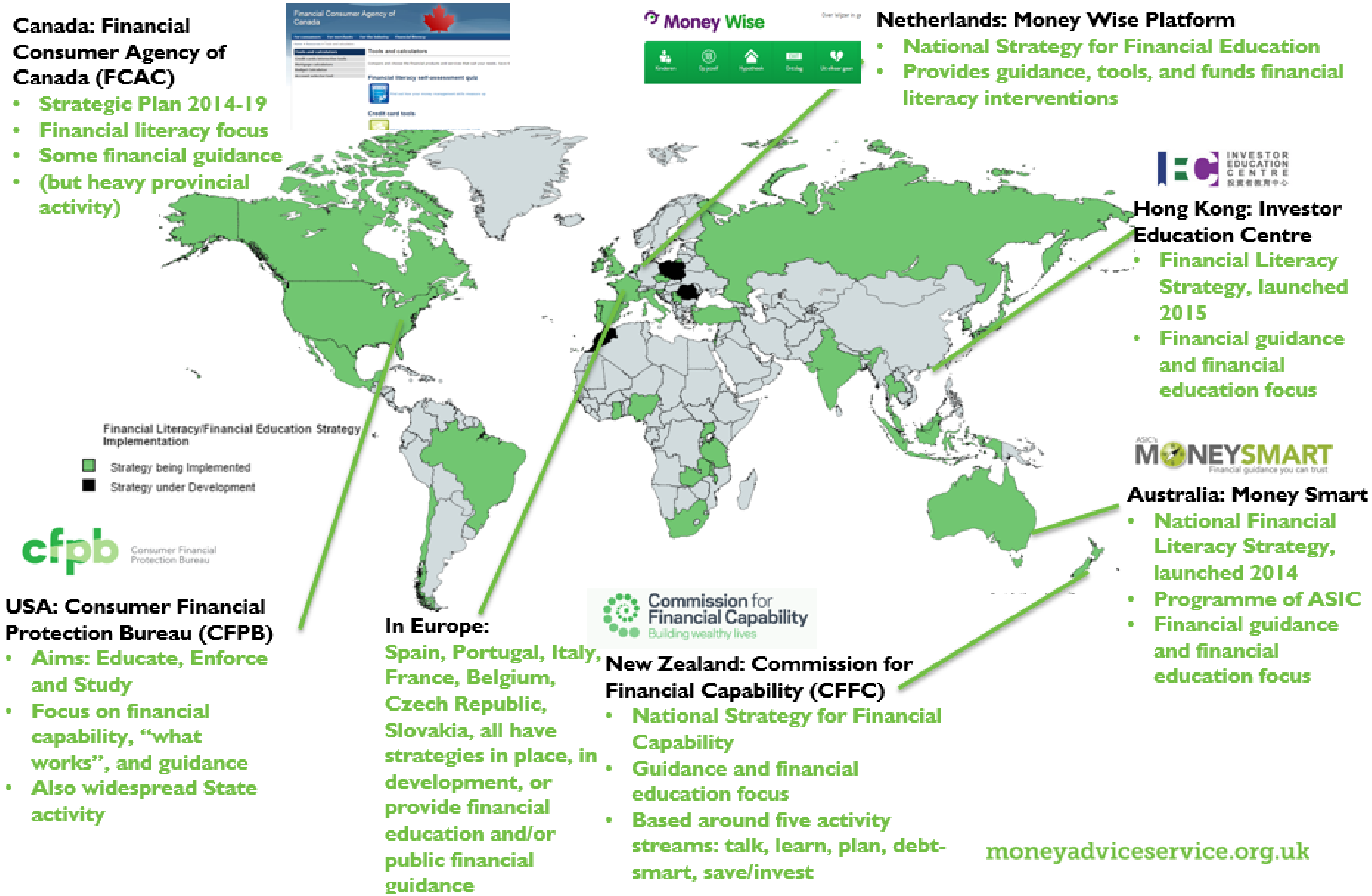


Fig. B.1: International examples of financial capability and money guidance initiatives

5. Among those advanced economies highlighted above, there is a high degree of homogeneity in the range of services and initiatives undertaken by public authorities. Though at different levels of maturity, the strategies and approaches summarised above typically focus on the provision of:
   - (Sometimes selective, sometimes comprehensive) financial guidance to aid consumers in making discrete financial decisions and to see their financial circumstances in the round;
   - The provision of tools and/or calculators to aid consumers negotiating particularly complex or significant transactions;
   - Increasingly, a focus on "life events" and decision-focused guidance.

   Among those examples highlighted, and in other nations, there is also an increasing focus on understanding which interventions are genuinely effective in changing financial behaviour, based on encouraging, and where possible requiring, robust evaluation of discrete interventions, though in most countries the mechanisms for incentivising such focus among third sector providers is less developed than that in the UK.

6. In Section 4 of Part A above we discuss the impediments to effective industry coordination and provision of financial guidance. One alternative to a completely voluntary approach to financial capability and guidance provision is mandatory funding but a permissive approach to provision. In South Africa, financial services firms are required to devote 0.4% of post-tax operating profits to financial education activities annually under the country's Financial Sector Code[54]. Most such contributions are paid to a trust operated by the country's conduct regulator, the FSB, which operates initiatives directly, though other options are available.[55] However, it is instructive that the South African government is currently planning to create, as part of forthcoming reform of its financial services regulatory regime, a conduct regulator with a specific duty to provide existing and future consumers with financial education programmes and to increase consumers' financial literacy.

7. There is variation among advanced nations in the focus on childrens' and young peoples' financial education as part of financial capability initiatives, reflecting perhaps differences in the education systems of these countries. Nonetheless, there is widespread and increasing recognition of the role of children and young people's financial education in delivering long-term improvements in financial capability. Following the Independent Review of MAS, and building on several years of activity in this space, MAS took on in March 2015 a specific responsibility for the coordination of financial education in schools.

8. There is a marked lack among international comparators of the functions of financial guidance and financial capability/literacy mandates being held by separate institutions. Though there are several instances of separate consumer-facing brands being maintained, these are, to our knowledge, in all cases maintained by the state entity tasked with improving financial literacy. In the case of New Zealand, for example, the consumer facing "Sorted" brand, which provides financial guidance on a wide range of financial matters comparable those currently covered by

[54] South Africa National Treasury (2004) *Financial Sector Charter, section 8.4* *http://www.treasury.gov.za/comm_media/press/2003/2003101701.pdf*
[55] South Africa Financial Services Board, Financial Services Consumer Education Foundation https://www.fsb.co.za/Departments/consumerEducation/Pages/foundation.aspx

MAS, is operated by the Commission for Financial Capability, a government agency which adopts a strategy similar to that so far adopted by MAS.

Annex C: Final MAS response to Independent Review recommendations

This annex represents the Money Advice Service's final formal response to the Independent Review conducted by Christine Farnish. It should be read alongside our draft 2016/17 Business Plan, which will be published for consultation in late December 2015 and which sets out the new corporate strategy that flows from the analysis and deliberations we undertook following the Independent Review.

Christine Farnish delivered an Independent Review of our Service to HM Treasury in March 2015. When the Independent Review was published the Money Advice Service accepted 19 of the 25 recommendations it made. We asked an Independent Panel of experts to help us consider the remaining six recommendations, as we felt that we would need help and support to turn them from recommendations to implementation, and further help refining the evidence about the true consumer needs they implied. Other recommendations were for the government and for the FCA.

The Independent Panel comprised:

- Clinton Askew, Chair of the FCA Smaller Business Practitioner Panel;
- Philip Brown, LV=;
- Professor Sharon Collard, Open University;
- Joanna Elson, Money Advice Trust;
- John Godfrey, Legal & General;
- Martin Lewis, Moneysavingexpert.com;
- Sue Lewis, Chair, Financial Services Consumer Panel;
- Kirsty Mackey, Barclays;
- Michael Mercieca, Young Enterprise;
- Otto Thoresen, NEST.
- Jonathan Douglas from our own Board chaired the panel.

The panel met three times and considered a range of consumer evidence, options and the broader strategic drivers around money guidance. We are extremely grateful to the Panel for their contributions, which included challenging but constructive debate.

The Panel offered to meet with us six months after the end of the process to look at our progress in implementing the conclusions we reached. The notes below reflect the main discussions we had with the Panel and the conclusions we reached. All of our conclusions were heavily shaped by the discussion and debate with the Panel, but the Panel agreed that we should not seek their unanimous endorsement.

Recommendation A12: gap-filling

Recommendation A12: *MAS should identify gaps in provision and take steps to address them, including through grant funding.*

The most strategic task for the Money Advice Service and the Panel was to agree a suitable analytical framework to respond to the recommendation that the Money Advice Service should direct its money guidance funding only at "gaps". We agreed this was right; but the challenge was to narrow down the gaps in a way that was as objective as possible and was above all friendly to the true needs of consumers.

Having established a consumer segmentation with clear characteristics, we then used the Financial Capability Survey for the UK, which was completed in June 2015 with more than 5,000 people, to determine where the most important needs were for each segment.

With the panel's help, we looked at this data, through the lens of the financial capability behaviours prioritised by our partners in the Financial Capability Strategy for the UK. This gave us a view of consumer need and possible detriment. We then mapped provision in the marketplace against the key areas of need.

The partners in the Financial Capability Strategy for the UK had helped us prioritise financial actions and behaviours into three key domains: managing money well day to day; planning ahead and dealing with life events; and dealing with financial difficulties.

We analysed consumer behaviours within our customer segments and across these three domains, considering how much people might stand to lose if not displaying positive financial capability behaviours.

Where good provision already exists, the Money Advice Service should not duplicate (although it may influence and support). We identified some key areas where provision was low or absent. We looked at each of these in turn with the panel to confirm that the gaps were indeed the right ones for us to focus on.

This approach led us to define the Corporate Strategy aims set out below, which we developed with the panel as the response to the "gap-filling" recommendation of the Independent Review. The Corporate Strategy accompanying these aims will be set out in full in the consultation version of our 2016/17 Business Plan. These then, are the gaps:

In our Corporate Strategy we have set out six strategic aims for the period 2016-2019

1. Succeeding through partnerships
To lead co-ordination of the many organisations that can contribute to achieving collective impact in improving financial capability – creating a common understanding of problems and of ways to address them.

2. Earlier and wider access to debt advice
To support significantly more over-indebted people to access free, high-quality advice as early as possible to resolve their crises and build their long-term financial capability.

3. More people budgeting and saving
To help people most at risk from income shocks to manage their money well day to day and save more.

4. Improving access to guidance and advice
To enable more people to access the right information, advice or guidance when making financial decisions.

5. Working with financial services
To influence regulation, policy and industry so that financial products and services enhance financial capability, especially for the 12.6m people in the 'squeezed' customer segment.

6. Widening and improving financial education
To improve the ability of a generation of children and young people to manage their money and take good financial decisions.

A7: offline money and debt advice

***Recommendation A7:** MAS should, when opportunities allow, seek to integrate its debt avoidance face-to-face, phone and web chat advice into its debt advice funding regime.*

We agreed with Christine Farnish's view that we can help the people who currently use our face-to-face channel more effectively by working through our debt advice lead organisations. So we have increased the amount of debt advice available, and we will be encouraging people to engage with debt advisers earlier. From 2014/15 to 2015/16 our core money guidance budget fell by £8.9m, which enabled us to increase core year-on-year funding of debt advice by £5.1m[56].

From 2015/16 to 2016/17, we intend to go still further, along the lines proposed in the Independent Review. We plan to replace our face-to-face channel (from 30 September 2016) and:

- transfer a further £1.9m to our core debt advice funding, alongside increasing the debt advice sessions we run by a further 55,000 compared to 2015/16 figures
- develop an enhanced telephone service
- deliver a range of other initiatives to support people who would typically access face-to-face services.

In recent years we have seen the demand for face-to-face advice sessions go down, at the same time as we have received record volumes for both our online and contact centre services. Our evidence shows that the phone is now as effective at getting people to take actions as face-to-face; however, face to face support is almost eight times more expensive than providing support via the telephone.

Debt and benefits are the most commonly discussed topics during face-to-face money guidance sessions, so we will be helping people who present with these topics by:

- **working with leading benefits charities -** such as Turn2Us - to further develop the advice telephone advisers can give to customers and the roll-out of this training will be completed during the early part of 2016. Due to the cost-effectiveness of the phone channel, we will be able to service a significantly higher volume of benefits related enquiries.
- enhancing our website to guide customers to the most appropriate source of **help for those needing assistance with benefits** – because in addition to MAS's own service offerings, there are already a wide array of options in both the public and charity sectors for people to access benefits-related advice.
- trialling different interventions to **get people most at risk of debt to seek advice** before their debts become a serious problem.

We also plan to enhance our telephone service with a range of measures designed to support people's financial capability. Over recent months, we have made some amendments to our phone service which has already improved the number of primary actions taken by customers by over 40% and we believe that the changes we will make in 2016/17 will increase this further. These improvements will include the option for extended money advice sessions, follow up sessions, better integration with other organisations, tailored guidance by email following phone calls and video chat as well as web chat.

We acknowledge that there is a small percentage of potentially vulnerable customers who would benefit from help with proactive money advice but who might not be reached via our telephone or digital services or through our enhanced and expanded debt advice support. This business plan contains two further initiatives to help them::

- We will invest **funds to pilot interventions in partnership with third sector organisations** already engaged in this area to understand how we can most effectively reach those most in need of face to face proactive money advice.

---

[56] The remainder was also allocated to debt advice work, but to one-off costs in 15/16 rather than core funding.

- We will invest funds into **peer-led capacity building in the sector** to improve both the quality and quantity of money advice delivered within the UK.

A10: website and marketing

Recommendation A10: *MAS should move to the recommended new website model and minimise spend on marketing activity.*

We agreed with this recommendation, and most of the people the Panel enthusiastically endorsed it too. The panel helped us develop our thinking about a new strategic aim (aim 4 in our list of corporate strategy aims) to ensure more people access financial advice. We want to make sure our website speaks a language that resonates with the key parts of our audience, engages them not just on a single topic but helps them to understand their money overall, then directs them to the best available resources.

We have ceased all MAS dedicated brand building marketing. Instead, customer communications will seek to coordinate partners. This coordination will address social norms about spending and saving; and topical money issues that can engage consumers with their money (for example, interest rate rises). We will particularly focus piloting, testing and learning on segments that are disengaged from managing their money.

A13: separate financial products helpline

Recommendation A13*: MAS should first pilot and then establish a Financial Helpline and this should be promoted by retail financial services firms. MAS, FCA and FOS should coordinate to ensure effective triage and a 'one stop shop' for consumer queries on financial matters where possible.*

We have always offered help with financial products as part of our helpline service; the distinctive point about this recommendation was its proposal for a standalone service that would be separately marketed to consumers.

We commissioned customer research about whether consumers had a propensity to call a standalone financial products helpline, along the lines laid out in the Independent Review. This research showed that demand was relatively low and this demand would always only be a component of the range of financial capability needs.

The Panel reviewed this evidence. The conclusion was that the case for the cost and complexity of launching a standalone products helpline was low, but we should continue to offer (and develop) product-related support in any telephone helpline service.

However, the panel discussions also advanced the view that providing telephone support about financial product choice as part of an "assisted digital" customer journey. That is, *after* customers have read complex information on financial guidance websites about products, some of those customers may still need support that reduces confusion and helps them to take action. Thanks to the interest and involvement of moneysavingexpert.com, we ran a pilot for six weeks of just such a service. An invitation to call a dedicated MAS helpline was embedded at key points in moneysavingexpert.com pages dedicated to helping consumers choose basic bank accounts, cash ISAs, savings accounts and credit card balance transfers.

The pilot showed that there was a low but focused demand, and that we could meet the customer need without straying into regulated advice. We are still reviewing the pilot results in the light of our budget for next year. But we think an operational version of this service, offered to financial guidance websites that aim to educate and inform consumers about product choice, could be a promising way of bringing the support offered by a helpline to customers that need it.

We worked closely with the FCA to create a reciprocal "triage" arrangement whereby callers who call our telephone service but really need the FCA's help are quickly cross-referred; and vice-versa.

A14: simplifying product information

Recommendation A14: *MAS should work with industry sectors to simplify consumer information about products and help make product features more comparable. MAS should commit to a small number of such projects a year to sustain momentum.*

We agreed with the Panel that this was an important area. With the Panel we welcomed the FCA's publication of its "Smarter Consumer Communications" paper in June 2015, where it clarified what it saw as the most pressing issues and expressed a clear intention to lead.

Given the FCA's lead, the Panel agreed that MAS should not duplicate the FCA's work. We do intend to supply the FCA with consumer insight and through our financial capability coordination encourage its success.

We also took inspiration from this recommendation to think about engagement with the financial services industry could most make a difference to the consumer needs we identified through market analysis. As aim 5 above states, we think our distinctive focus should be on influencing opportunities for financial products and services to enhance the financial capability of the consumers less likely to budget and save.

A16: kitemarking of generic guidance

Recommendation A16: *MAS should establish consumer-oriented quality criteria and a panel of independent experts, list providers on its website, and explore the feasibility of awarding good providers with a MAS Quality Mark; the government should consider whether it is necessary to clarify MAS's statutory powers in this area.*

The Panel agreed that a website designed as a "gateway" service to many other sources of financial information presents new challenges over *which* resources to link to, and *why*.

We explored in consumer research whether a kitemarking scheme would help us to address this challenge. The reaction we received reflected consumer confusion - as consumers are really interested in seeing kitemarks for financial *products*, not against generic financial *guidance*.

In the light of this conclusion we agreed with the panel that we will develop strict policies and processes around the selection of resources we link to.

For further information on response, please contact:

Carl Pheasey
Head of Policy, Money Advice Service

carl.pheasey@moneyadviceservice.org.uk

07980 769 480

the Money Advice Service™

December 2015