

Department for Business Innovation and Skills: call for evidence on terms & conditions

Response from the Money Advice Service
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Rebecca Langford
Policy Manager
Rebecca.Langford@moneypensionservice.org.uk

1. About us

- 1.1. The Money Advice Service is a UK-wide, independent service set up by government to improve people's financial well-being. Our free and impartial money advice is available online, and by phone, web-chat or face to face with one of our Money Advisers. We also work with the debt advice sector to improve the quality, consistency and availability of debt advice.
- 1.2. Our core statutory objectives are set out in the Financial Services Act 2010. We are paid for by a statutory levy on the financial services industry, raised through the Financial Conduct Authority.
- 1.3. As the statutory body for financial capability, MAS has led the work with organisations across all sectors – financial, third sector, government and regulators to develop The Financial Capability Strategy for the UK. This 10 year Strategy aims to improve financial capability, giving people the ability, motivation and opportunity to make the most of their money.
- 1.4. We are responding to this consultation in light of our statutory roles to enhance understanding and knowledge of members of the public about financial matters (including the UK financial system), and to enhance the ability of members of the public to manage their own financial affairs.
- 1.5. On 16 March 2016 the government announced its intention to replace the Money Advice Service with a new money guidance and financial capability organisation, which is not expected to take over before April 2018.

2. Summary of our response

- 2.1. We support efforts to simplify and, where possible, standardise terms and conditions to highlight the parts that matter. In particular, we believe firms should display the true cost of contracts, including the cost of credit and of possible penalty charges, in pound and pence.
- 2.2. Levels of financial capability in the UK are low¹ and this is a barrier to consumers being more active in markets and understanding the consequences of the choices they make. Improving the 'ease and accessibility' of the financial system is an important component of financial capability. Improving terms and conditions so that they are more easily understood should make it easier for consumers to engage with financial services successfully. To maximise the impact of simpler terms and conditions we also need to tackle consumers' skills and knowledge of financial matters and their attitudes and motivations towards managing their money well. Consumers need to be able to understand the content of terms and conditions; they also need to be motivated to read and engage with them.
- 2.3. There is a limited evidence base of what works to increase financial capability and creating this evidence base is at the heart of the UK Financial Capability Strategy.² Approaches to simplify and make terms and conditions more engaging should be tested with consumers, preferably in randomised control trials.

3. Our response

Many consumers do not engage with or understand terms and conditions

- 3.1. In 2014 we found that 84% of UK adults do not read the full terms and conditions when they take out financial products.³ Even where terms and conditions are read they may not be understood.

¹ Money Advice Service (2015) [Financial Capability Survey](#) p5

² [Financial Capability Strategy for the UK](#) (2015) p20

³ Money Advice Service Press Release: Misunderstanding financial T&Cs cost UK adults £21 billion last year. <https://www.moneyadviceservice.org.uk/en/static/misunderstanding-financial-tcs>

Our research showed that we shouldn't overestimate people's ability to understand even commonly used financial terms and concepts:

- 32% of respondents misunderstood the meaning of 'interest';
- 46% were unable to correctly identify the meaning of 'compound interest';
- 44% were not able to identify the meaning of 'annuity';
- 61% could not identify what EAR stands for (Equivalent Annual Rate); and
- 30% could not identify what APR stands for (Annual Percentage Rate).

3.2. Additionally, our 2015 nationally representative Financial Capability Survey⁴ found that:

- 1/5 of adults could not correctly read the balance on a bank statement.
- Only around 2/3rds knew that if they put £100 into an account with 2% interest per year, they would have £102 at the end of the first year.
- Fewer (60%) knew that if the inflation rate is 5% and the interest rate on their account is 3% they will have less buying power in a year's time.
- 14% of adults answered all three of these skills and knowledge questions incorrectly – equivalent to 7 million adults in the UK.

3.3. **Some consumers may lack the confidence they need to engage with the detail of products.**

We have found that only 47% feel confident making decisions about financial products and services and confidence is notably lower amongst young adults as well as the lower social grades and income bands. Difficulty understanding terms and conditions or a fear of misunderstanding them may contribute to low confidence.

Proposals for improving transparency, awareness and understanding

3.4. **We support efforts to improve transparency, awareness and understanding of terms and conditions.** We agree that there is value in encouraging business to enable and support consumers to actively engage with terms and conditions. Consumers not having the confidence or motivation to engage with markets or not understanding the terms of products and services offered may limit competition. Evidence from our financial capability survey shows that people who are not able to answer our skills and knowledge questions and people who lack confidence making decisions about financial products and services are less likely to have shopped around in the last 12 months.⁵

3.5. The consultation suggests a number of ways in which government could seek to increase consumers' engagement and our thoughts on aspects of these proposals are set out below. We agree that improving accessibility and readability of terms and conditions is important. Government should also consider ways in which consumers could be motivated to engage with terms and conditions. **To maximise the impact of simpler more engaging terms and conditions we need to address the low levels of capability described above.** The evidence base of 'what works to improve financial capability is limited. We consider **it is important that proposals are tested with consumers and ideally trialled to identify which have the greatest positive impact on consumer behaviour.** Trialling will also identify if particular terminology or a method of presentation has any unexpected negative consequences for consumer decision making. As part of the UK Financial Capability Strategy we have developed an approach to building evidence on what works, including an evaluation toolkit.⁶ We are committed to working with the financial capability sector, including government to ensure the impact of interventions on financial capability are evaluated in a rigorous and consistent way.

3.6. **Format and length:** We agree it should assist people to navigate terms and conditions if they are presented in a standard way that highlights the key issues in bold and 'up front'. Given the increasing incidence of people shopping and banking via mobile phones we agree that it might be desirable for T&Cs to be succinct so that they fit onto smartphone sized screens. However, we are

⁴ Money Advice Service (2014) [UK Financial Capability Survey](#) p24

⁵ Money Advice Service (2014) [UK Financial Capability Survey](#) unpublished analysis

⁶ See http://www.fincap.org.uk/understanding_what_works

wary of the possible consequences of oversimplification. For example, the FCA has identified that the simplified way that price comparison websites display general insurance deals helps to make the purchase decision more manageable but, as a result, many consumers actively avoid engaging with the products in detail, interrogating features or considering the amount of cover they may actually require.⁷ We suggest that options for succinct terms and conditions are trialled to identify their impact on engagement and consumer decision making.

3.7. We have used ongoing testing with real users to make incremental improvements to the mobile friendliness of our own website content. We have found it effective to provide a short overview of the topic and list key things to consider in a format that fits onto a smart phone sized screen. From this list consumers can click through to a topic they would like to see further information about. Breaking information up into small chunks makes it easier for consumers to navigate to sections they are interested in. Using sub-headings within content also aids navigation.⁸

3.8. **Context:** Consumers are unlikely to increase the extent to which they engage with terms and conditions unless they can see the benefit to them in doing so. Effective disclosure of the main characteristics and terms of the product up-front could potentially help consumers to choose the right product for them. Consumers may also be more motivated to engage with terms and conditions if they are presented at an earlier stage in the purchase process. As is seen with drip pricing, where terms and conditions are presented for agreement at point of payment when consumers have already incurred search costs and are psychologically committed to the purchase they may be less likely to take action if presented with unfavourable terms.⁹

3.9. **Language:** We support efforts to reduce the complexity of language used to describe products and in terms and conditions. It is important that the impact of language is tested with consumers to ensure it conveys the message expected. We recently commissioned ComRes to conduct research into pensions language¹⁰ and found that:

- it is important that the language used is accessible and not just simple, as terms can sometimes be seen as too unprofessional for a serious topic;
- terms and phrases used need to address particular points of concern to avoid consumers distrusting and ultimately disregarding the information provided; and
- use of more consistent language across industry, government and the third sector could help build trust.

3.10. **Communicating true contract costs and how consumers will be charged:** As discussed above, levels of financial capability and numeracy in the UK are low and we shouldn't over estimate people's ability to calculate contract costs. True monthly contract costs and total costs over the period of the contract should be communicated clearly to allow consumers to compare deals. In addition, the costs of credit for example for spreading payments over a period of time, and the impact of missing payments should be clearly displayed in terms that people understand and can assimilate quickly, e.g. pounds and pence.

3.11. In some instances, it can be effective to use case studies to communicate the implications of a particular course of action. However, it is important to trial the effectiveness of the example used. We have found that if consumers find reason not to identify with the person in the study it can cause them to disregard the information it communicates as irrelevant to them.¹¹

3.12. We agree that as well as highlighting the true costs of a contract, terms and conditions should clearly communicate where consumers are being asked to sign up to a continuous payment authority and the consequences of that agreement.

⁷ FCA (2014) [Price comparison website: consumer market research](#) p8.

⁸ For example see MAS guidance on '[Benefits to claim when you're pregnant or have a baby](#)'

⁹ ESRC Centre for Competition Policy (2013) Behavioural Economics in Competition and Consumer Policy, P43

¹⁰ Money Advice Service (2016) [Pensions language analytical report](#) p8

¹¹ Unpublished research conducted by Bdifferent (2015) Exploring reactions to proposed Money Advice Service website content

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The Money Advice Service

Holborn Centre
120 Holborn
London
EC1N 2TD