



The Consultation Response and Next Steps

Financial Capability Strategy for the UK

Foreword

Financial capability is critical to improving people's lives, helping them to withstand life's financial ups and downs. In today's world, when people are even more susceptible to financial shocks, it's more important than ever that they know how to manage their money, prepare for difficulties they may face, and be able to cope if they face a crisis. So it's worrying that levels of financial capability are still so low across the country. One in six people can't read the balance on a bank statement. Approximately 40% of the working age population are unlikely to have adequate income in retirement. Over 50% of people say that they are 'making do'. And more than 80% of over-indebted people do not seek free advice that could help them escape from the problems they face.

That's why I and the many partners involved in this project are determined to put in place a UK Strategy that helps people manage their money over the short, medium and long term. There is growing support for this initiative across the financial services sector, advice organisations, governments in every part of the UK, and the broader public sector. We have a great opportunity to improve people's skills, knowledge and attitudes towards money, and we must seize it.

Over the last few months, since we launched our draft Strategy document, we've been listening to partners and colleagues to help shape the Strategy. It's clear that interventions are needed to support people at all stages of their life. That means help for parents to teach their children about money from an early age. It means financial education in both primary and secondary schools, taught in a way that is proven to shape the right attitudes among students for the rest of their life. It means advice, guidance and support for people throughout their working lives, including if they find themselves out of work and claiming benefits. We need to help people prepare for retirement, especially in light of the changing pensions landscape and increasing longevity. And finally, we need to ensure that people in retirement are able to cope with the changes to their finances which come with finishing work, particularly as reforms to long-term care are implemented.

It's also become clear through the consultation that for our work to be successful, the vast majority of people must be able to say three things about their financial behaviour. The first is: "I know how to manage money from day to day." This means being able to shop around, find the best deal, cut back when the going gets tough and budgeting on a regular basis. The second is: "I know how to plan ahead." This means not just keeping afloat, but putting money aside in case something goes wrong, such as losing your job, or for a long-term goal like a car or a holiday, for the costs of bringing up a child, and for retirement. The third is: "I'm able to cope when I get into difficulties." This means being able to talk openly about money with family and friends, knowing where to turn for support and advice, and turning to it before it's too late.



Andy Briscoe
Chairman of the
Money Advice Service

A lot of good work has been done in the last few months. The Financial Inclusion Commission has published a set of proposals which they hope will be taken up by the new Government after the General Election in May. The Savings and Investment Policy Project (TSIP) has produced a set of proposals intended to get people saving more. At the Money Advice Service we have developed an evidence hub to enable people to understand what works in terms of changing financial behaviours. We have shaped our annual Financial Capability Survey to enable us to measure progress on the UK Strategy and have launched the new Evidence Hub. We are working to support the development of a sustainable model for financial education, initially for children and young people, and are establishing a Debt Advisory Steering Group to co-ordinate the debt sector.

Over the next few months, we will be working hard to translate the hopes and principles of a UK Strategy into tangible actions which industry, charities, regulators and the Money Advice Service can implement over the next 10 years.

I hope you share my aspirations, and I thank you for your participation in the development of the UK Strategy to date. I look forward to working with you to deliver a more financially capable society.

A handwritten signature in black ink, appearing to read 'Andy Briscoe', written in a cursive style.

Andy Briscoe
Chairman of the Money Advice Service

Executive Summary

This report sets out progress towards developing a Financial Capability Strategy for the UK, to be published in Summer 2015, and is the formal response to the consultation that was launched in September 2014.

It includes:

- progress in developing the Strategy in response to the feedback received,
- an update on the initiatives to enhance financial capability that have been launched since September or are about to be launched,
- how the Strategy will be developed and implemented through a 'collective impact' model of governance, bringing together partners across the UK,
- how we can ensure initiatives and interventions achieve the best outcomes through enhanced use of evidence and evaluation.

Aim of the Strategy

Millions of people in the UK struggle to make the most of their money. The Strategy aims to help people to improve their financial capability, to enable them to have the best possible financial wellbeing. This means addressing all the factors that influence people's behaviour – their skills and knowledge, their attitudes towards money, their motivation to take action, and the accessibility of the financial system.

Over 250 organisations in the UK, across government, financial services, the public sector and the third sector, are currently engaged in improving financial capability. The Strategy aims to ensure that the many financial capability interventions are generating the maximum benefit to consumers. It will do this by encouraging organisations to sign up to a shared set of priorities, aims and aspirations, a common method of evaluating what they do, and an undertaking to share effective practice. The final Strategy will put in place a tangible action plan, with commitments from organisations to take specific steps over the next few years to advance the cause of greater financial capability in the UK.

Overview of consultation responses

The response to the consultation was very positive overall, with agreement on the need for a strategy, plus strong support for the collaborative approach so far, and for improving evidence and evaluation across the sector. Many responses asked for more clarity or detail on the governance of the Strategy, and the specific role of the Money Advice Service. They wanted to understand how the Strategy would meet the particular circumstances and needs of the devolved nations. They asked for a clearer articulation of the links between the various capability models, and for more detail on how those models supported the identification of target groups and recommendations.

Sector roles and governance

The Strategy is a UK-wide strategy for Financial Capability, and will be based on the concept of collective impact, where large-scale social change comes from co-ordinated cross-sector effort rather than from individual interventions.

The Money Advice Service will act as the anchor organisation for the Strategy and will fund and host a secretariat to co-ordinate implementation. It will also provide data on the levels of financial capability in the UK, through its annual Financial Capability Survey and other research; encourage the use of evidence and evaluation, so we know what works; co-ordinate debt advice and prevention; co-ordinate the development of a more sustainable model for financial education; and measure the progress of the Strategy itself. The Money Advice Service will also put in place selected initiatives and interventions identified in the Strategy, but will focus resources on people who are less well served by other organisations in the sector.

A Financial Capability Board will be established to lead the Strategy, consisting of influential senior figures, acting as champions across the sector. Action Groups of key stakeholders will be asked to help develop particular elements of the final Strategy and action plan. There will be Steering Groups for the Strategy in Northern Ireland, Scotland and Wales, drawing on the membership of the existing Money Advice Service stakeholder forums. Although the Strategy will be UK-wide, it will also have nationally-specific actions for Northern Ireland, Scotland and Wales, to recognise and address the policy contexts and specific challenges of each country.

Definitions and modifications to the framework and target groups

Financial capability is a person's ability to manage money well, both day to day and through significant life events, and to handle periods of financial difficulty. It is driven by personal skills, knowledge, attitudes and motivations, and made possible by an inclusive financial system and supportive social environment. Financial capability helps people achieve the best possible financial wellbeing.

Financially capable behaviours are the types of positive behaviour and actions that the Strategy aims to promote and measure. Based on the consultation feedback, three 'behavioural domains' have replaced the original four domains in the draft Strategy:

- Managing money well day to day (including building resilience)
- Preparing for and managing life events (both planned and unplanned)
- Dealing with financial difficulties (including tackling debt problems)

We will seek to influence this behaviour across the life stages of:

- Children and young people
- Working age people
- Older people in retirement

The new Strategy Framework will be used to identify priority areas for action in the final Strategy. The Money Advice Service Financial Capability Survey has also been aligned with this framework to ensure consistency of approach.

Progress against the priorities for action

In addition to recording activity across the priorities for action, this document highlights some of the significant developments in these areas since the publication of the draft Strategy.

Children and young people

There has been significant activity in this area. In England, The Archbishop of Canterbury's Task Group on Responsible Credit and Savings is piloting a savings club and financial education programme for primary schools, in partnership with pfeg/Young Enterprise.

The Money Advice Service will be taking a co-ordination role in financial education for schools and will take forward discussions with the Department of Education and Ofsted, as well as in the devolved administrations. The Money Advice Service will also work to help funders and commissioners of financial education to deliver more impact from their investment, with the first Funders' Summit taking place in April.

The Money Advice Service is delivering a set of pilots to integrate financial capability content into existing parenting interventions for young children.

Working age people (preparing for later life)

This strategic theme has been changed from 'Preparing for Later Life' to 'Working Age People' to ensure the Strategy addresses the full range of issues and life events for this broad age-group. While saving for retirement and navigating pensions reform remain important elements of this, additional issues include managing money day to day and building resilience, saving and planning for the future, and targeting interventions for specific groups. There will be particular issues in relation to the roll-out of Universal Credit, pensions reform and changes to the social care system.

Older people in retirement

For older people, increasing resilience to financial scams and tackling financial abuse is increasingly a priority. Age UK's forthcoming report will outline the lessons it has learnt from its experiences delivering services to people in later life. This will feed into the further development of the Strategy, through work with organisations to build an evidence base for financial capability interventions that are effective in reaching older people.

People with financial difficulties

The Money Advice Service has a statutory role to co-ordinate debt advice across the UK and has set a strategic aim to double the percentage of people accessing debt advice over the next five years. It will be taking on a greater role in co-ordinating debt advice and prevention, including establishing a Debt Advice Steering Group made up of the major advice providers, creditors and other statutory bodies. National Debtline, StepChange Debt Charity and Citizens Advice have been working together with the Money Advice Service to raise awareness of free debt advice, and there have been useful developments in England, Wales and Scotland to improve insolvency solutions and build financial education into debt advice.

Ease and accessibility of financial products and services

Since the launch of the consultation, the Financial Inclusion Commission has published its recommendations to improve the inclusivity of financial products and services. The final Strategy will build on those recommendations. Initiatives such as Basic Bank Accounts and the Simple Products Framework should contribute to improving access and transparency. Access to affordable credit was flagged as a major issue by consultation respondents, and the Money Advice Service will work with the community finance sector to explore this. The Money Advice Service will also work with financial services providers on simplification of product terms and conditions.

Influencing social norms

Responses to the consultation strongly supported the UK Strategy seeking to influence social norms, so that people feel more comfortable talking about money, and seek the advice and guidance they need. Cross-sector work on this was recognised as important, because of the limits on any one organisation's capacity to create change in this area in the short-term or through specific projects. While shifting social norms is a complex and long-term endeavour, there is a growing body of evidence on the application of behavioural economics and psychology to shift norms and attitudes to financial capability, including studies from the Behavioural Insights Unit, the FCA and the ABI. The Strategy's Action Groups will provide forums to share research insights and align messages, with a potential focus on savings.

Evidence and evaluation

Following supportive consultation feedback endorsing the role of the Money Advice Service as a thought leader in the area of evidence and evaluation, the Money Advice Service has collaborated with the Personal Finance Research Centre (PFRC) at the University of Bristol to develop and launch a financial capability evidence hub. The new hub brings together in one place the latest research to help share learning on what works – and doesn't – in improving people's financial capability. Key insights from this research are presented in a concise and accessible format for funders and practitioners. The hub has been designed to support organisations to increase the positive impact their programmes generate, and will be developed further in future. It is available at fincap.org.uk

The Money Advice Service has also continued to develop a common evaluation toolkit to help support funders and providers of financial capability interventions measure the impact of their programmes in a more consistent and robust way. The toolkit involves a set of outcome frameworks, developed in partnership with a number of expert organisations, amongst other resources, and will be piloted with 15 – 20 stakeholders across the UK in 2015.

Progress in devolved nations

The Northern Ireland Executive and the Welsh Government have their own Financial Capability Strategies, whereas the Scottish Government's approach to financial capability is set out in the Child Poverty Strategy for Scotland. The UK Strategy will link into these existing plans.

Financial capability is embedded in the curriculum in all three countries, with a focus on improving money management skills for young people. The Money Advice Service is working to pilot the evaluation toolkit, parenting programmes and debt prevention programmes with a range of partners in all three devolved administrations.

Next steps

In order to finalise the Strategy for Summer 2015, we will set up the Financial Capability Board and its supporting Secretariat, and we will task Action Groups and devolved Steering Groups to develop detailed delivery plans. We will pilot the Evaluation Toolkit from Spring 2015, and continue to develop the online evidence hub. Once the Strategy moves to its implementation phase, the Board, supported by the Secretariat, will monitor implementation, ensuring that key milestones are met and evaluation is ongoing.