Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Dear Marie

Towards a National Strategy for Financial Capability

This is the Panel's response to the recent FSA paper, "Towards a National Strategy for Financial Capability."

The Panel's Overall Approach

The Panel is delighted that a Steering Group has been set up to take forward the development of a national strategy for financial capability. We believe that one of the keys to the success of this project is for all those involved, including representatives from industry, government and the voluntary sector, to work together closely and effectively in a way which is unprecedented in the financial services arena. The Panel would like to contribute to this process and Panel members have, as you know, a wealth of experience in the advice sector and elsewhere. The enormity of the task facing the Group is daunting, but its success is an important part of the FSA's work – although not, of course, a substitute for continuing consumer protection. The Panel is looking forward to a constructive relationship with the Steering Group and the Working Group and to debating issues as the project progresses. At this stage we have a number of thoughts and comments we would like feed into your early discussions. These are set out below.

Objectives

In the Foreword John Tiner acknowledges the scale of the problem that the project is trying to address and the time it will take to make a significant impact. With this in mind it is essential that the Group's objectives are realistic. As you say in the paper, the FSA's own research has shown that 25% of adults are unlikely to be able to perform the simplest calculation. There are other, equally disturbing statistics concerning the level of illiteracy (as opposed to financial literacy) and the number of families living in poverty in the UK. Clearly these factors have significant implications for the project. In other words, there are various groups of consumers who, even with the benefit of targeted help, will unfortunately not be able to understand enough about money to make informed decisions. There will also be those for whom financial products of any kind are luxuries they cannot afford. It is important that the

Steering Group identifies specific, realistic and *achievable* objectives for the project. We feel that the Group will have to devote time to managing expectations of the project, both within the FSA and outside it, to ensure that others do not turn the project into a useful hook on which to hang responsibility for all financial issues for consumers.

As you have acknowledged, there is also a limit to how quickly the objectives of the project can be achieved. To help keep the momentum of the project going it might be helpful to set some short-term objectives with limited scope. An example of that might be a project to increase adult understanding of percentages.

Success Measures

It will be difficult to measure the success of different strands of the financial capability work and of the project as a whole. You might want to consider conducting research now to map current consumer profiles across various groups, both to inform the Group and to use as a basis for tracking key indicators. Consumers cannot be considered as a single group for this exercise as their needs will vary greatly depending on a number of factors, including wealth, ability and age. The Strategy team will need a comprehensive picture of these consumer groups from the outset.

With such a wide-ranging overall objective the Group will have to think creatively about success measures. Perhaps consideration could be given to completion of a questionnaire by consumers of financial products/services, in which they have to explain the risks of a product they propose to purchase and why it is suitable for them. For an objective such as increasing adult understanding of percentages, a ‘before and after’ measurement would suffice.

Generic Advice

For large groups of consumers no amount of simplification, education and information will obviate the need for accessible and easy to understand generic advice delivered on a timely basis. Of course this is a topic which has been debated widely and a great deal of work has already been completed which will help to inform the project plan.

In the past the Panel has called for a centrally funded generic advice service. On the basis of the information we have available we still believe that this is the most appropriate route, although we will be conducting research in this area ourselves. We are looking forward to assessing and discussing alternative proposals as both the project and research work progresses.

There is a possibility that banks/building societies would be willing to use their branch networks to deliver generic advice. No doubt the Group will debate the extent to which it is appropriate for authorised firms to be involved in the delivery of consumer education and advice when they have a strong financial interest in the market and perhaps a conflict of interest too.

In this respect you might be interested in the outcome of mystery shopping research we have conducted into the quality and accessibility of financial reviews currently offered by banks. The results will be published in the New Year. Briefly, the research showed that the quality of the financial reviews varied greatly from bank from bank – and sometimes from branch to branch. Generally the reviews actually conducted bore little resemblance to the service described in promotional and other literature provided to the Panel by the non-branch offices of the banks. Overall our conclusion is that although firms could have an important part to play in the delivery of the financial capability work (subject to there being no conflict of interest), care needs to be taken to ensure that firms delivering services such as generic advice meet a consistent, acceptable standard. In no circumstances should this advice be used as a sales or promotional tool.

There are two other particular aspects of the generic advice debate which the Panel would like to raise with you now:

- **Process:** as you know the Panel welcomed the FSA's work on the Financial Healthcheck and we thought that the prototype which was launched early this year showed great potential. Nevertheless we are concerned that the Group might place too much reliance on use of the internet, CDs etc to deliver what is needed. Although basic one-to-one financial advice might appear expensive in absolute terms it is essential for some consumers and should be extremely effective. Please do not discount this option.

- **Delivery:** as is made clear in the Paper, the Group is drawing together a number of different organisations who will be playing a part in formulating and carrying forward the financial capability strategy. In terms of accessibility, authorised firms with supermarket and other retail outlets such as Tesco, Marks & Spencer and Sainsburys could potentially reach far more consumers than other banking firms. We look forward to hearing their views.

Education

Consumer education is no substitute for a clear explanation of the risks associated with the purchase of financial products, the use of plain language and the publication of advertisements which are not misleading. But it is a useful and important addition to the 'armoury' of the consumer who is expected to take responsibility for his/her financial decisions, whatever his/her ability and experience. The Panel believes that on the whole consumers are most receptive to education and are most likely to retain it at the point it is needed, rather than when it is simply available. Therefore the industry has a vital role to play in financial education, delivering what is needed when it is needed. Advisers should also be educators. The FSA's consumer needs work will also be extremely useful here, identifying decision or action points where consumers would be seeking information for themselves.

As is acknowledged in the paper, repetition and common messages, simply put, are likely to work well with most consumers and this is a message the Group should not lose sight of. This is not something that the FSA can promote in isolation. The FSA should use clear and simple messages for consumers which are applied consistently across the whole financial services industry. The Panel has written separately to the FSA concerning its decision to allow unrestricted use of the term "independent" in the general insurance market, a step totally at odds with restrictions that have been applied in the investment market. Decisions such as this can lead to a degree of confusion among consumers that no amount of education will be able to resolve.

The Panel is concerned that with so much invested in and expected of consumer education there is a danger that the education process will become over-engineered and too complicated.

Finally on this issue, the power of television as a medium for reaching the public at large should not be overlooked. We urge you to examine the effectiveness of using television, rather than turning it down for cost reasons alone.

Funding

We agree that the Group needs to take stock of how money is currently being spent on financial capability and to ensure that the new co-ordinated approach provides value for money. In this respect we believe that whatever cost benefit or impact analyses are used, the true direct and indirect benefit to consumers and to firms of the various initiatives should be taken into account. This will be a departure from the Cost Benefit Analysis approach taken by the FSA in its consultation papers. In addition we think it almost inevitable that further funding will be required and we note that the FSA will be looking to its partners in the project to generate at least some of this. We would like to sound a word of warning here. Agencies within the voluntary sector provide a much-needed service to many consumers and the Panel would not wish to see this project taking funds away from these organisations or their sponsors. In addition to the possibility of raising funds from firms specifically for this project – and we understand that this would require consultation – the FSA may wish to consider, for example, the possibility of using some of the money it receives by way of fines to help meet this cost.

Stakeholders

We wondered whether, along with the bodies represented on the Steering Group, the FSA envisaged working in partnership with Local Authorities and Trading Standards Offices, who are regularly in contact with members of the public.

Other Issues

The Financial Capability Strategy is a long-term project which we support, but it cannot be used as a substitute for consumer protection. Nor should the FSA's other consumer-based work dealing with immediate and emerging problems be subsumed into this project that will, as the FSA Chairman told the Panel, take as long as a generation to achieve its overall aim.

It is important that the Group adopts a realistic approach to the project. The Panel would be interested in your views on what action the FSA and the Group would take if consumer behaviour does not change sufficiently as a result of this work, or if it is found that significant numbers of consumers are unable to cope with the demands which are made of them in terms of understanding financial issues.

Finally, Panel members have said that they would like to be involved in the workshops referred to in the Paper as well as being consulted on progress and development of the strategy in the normal way.

Yours sincerely,

Ann Foster

Chairman
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