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Dear Sir, Madam,

## **Public financial guidance consultation**

This is the response of the Financial Services Consumer Panel (the Panel) to the government's consultation on public financial guidance.

The Panel agrees with the government that a statutory role is still required for the provision of financial guidance. We believe it is vital to improve the financial capability of UK citizens, and that the provision of publicly funded guidance should be one element of this. In his independent review of 2008<sup>1</sup> Otto Thoresen identified the need for a service that would be:

- Independent from government and the financial services industry;
- Supportive ("on my side");
- Preventative;
- Available to all; and
- Sales free

The potential value of the service was confirmed by field trials<sup>2</sup>.

While technological advances have opened up new possibilities for the delivery of guidance, the underlying need remains. The previous coalition government announced Pension Wise as a service that "empowers and educates people so they can make their own, informed choices about their pension..."

It is easy to see how Pension Wise could be extended to cover other life stages and events. Indeed, that is pretty much what the Money Advice Service (MAS) was set up to do. We broadly agree with Christine Farnish's<sup>3</sup> conclusions on MAS. A statutory body cannot, and should not, do everything. We see the main functions of a statutory body in relation to financial guidance as:

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<sup>1</sup> [http://webarchive.nationalarchives.gov.uk/+/http://www.hmtreasury.gov.uk/media/8/3/thoresenreview\\_final.pdf](http://webarchive.nationalarchives.gov.uk/+/http://www.hmtreasury.gov.uk/media/8/3/thoresenreview_final.pdf)

<sup>2</sup> The Money Guidance Pathfinder: key findings and lessons learned. Consumer Financial Education Body, July 2010.

<sup>3</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/414812/PU1736\\_MAS\\_review\\_document\\_19\\_March.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/414812/PU1736_MAS_review_document_19_March.pdf)

- Identifying needs and gaps in the provision of advice that meets the Thoresen principles; and filling any gaps through a range of delivery partners; and
- Being the first port of call for consumers, providing *impartial* information (e.g. comparison tables, adviser directories), answering straightforward queries (e.g. 'jargon busting') and referring people on to specialist help (on debt, tax, benefits, pensions, etc.) and also to professional advice.

In a devolved model such as this, the Panel believes that all organisations delivering financial guidance to the public should be subject to FCA standards (as is Pension Wise) and that all individuals providing guidance should be trained to the same standard. This would ensure consistency of delivery across different organisations and channels. We also believe that the statutory body and the FCA should work closely together, avoiding wasteful duplication and consumer confusion.

On debt advice, we do not think there is a need for MAS to set standards now that the FCA regulates consumer credit, but that the MAS standards are a good foundation.

The Panel is neutral on the institutional arrangements for publicly funded financial guidance. What matters is that consumers know where to go, and that they understand and trust the service they get. A proliferation of brands is confusing. We would observe that the reasons the financial capability function was taken out of the FSA no longer apply. MAS's statutory objectives are a better fit with those of the FCA, as financial capability can be seen as an element of both consumer protection and competition. However, there needs to be a degree of independence from the regulator: governance along the lines of the Payment Systems Regulator might work if the government were minded to put MAS's functions back into the FCA.

In taking forward the review, the government needs to take account of the differences in countries within the United Kingdom and the impact on how public financial guidance will operate.

Yours sincerely,



Sue Lewis  
Chair  
Financial Services Consumer Panel

## Consultation Questions

The Panel has only answered questions where we have substantive comments.

### Chapter 1 – Introduction

#### **Question 1: 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 that guidance?**

The Panel has no evidence about people with protected characteristics, but we would note that everyone is potentially vulnerable at some point in their lives, through a change of circumstances such as losing a job or partner, or even gaining a sudden 'windfall'. At these points, people will have an unexpected need for advice on their finances.

### Chapter 2 – Debt

#### **Question 2: What additional, or alternative functions and structures could a statutory body put in place to effectively coordinate debt advice provision?**

MAS could provide more of an overall picture of debt advice. The graph at paragraph 2.7 shows only statistics for MAS. This is fine, but it is impossible to assess how well MAS is performing compared to debt advice firms that are not publicly funded. It would be useful, for example, to know what proportion of those consumers seeking debt advice MAS has helped when compared with commercial debt advice firms, and how the costs and outcomes compare. Whilst MAS may not hold this data, another organisation, such as the FCA, could look into producing this.

#### **Question 3: What role should a statutory advice body have in providing quality assurance and setting standards for debt advice?**

As the consultation paper recognises, the FCA now regulates debt advice. It is therefore unclear what future role a statutory advice body should continue to play in setting standards and there is a risk of duplication/conflict. We believe the FCA should take over this role from MAS, but that it would be helpful for the FCA to use and develop the tools already created by MAS, which the consultation document states have raised standards.

#### **Question 4: What scope is there to rationalise the funding of public financial guidance provision on debt?**

We are puzzled by the phrase *"it has been argued that the funding basis for statutory debt provision does not accurately reflect the causes of debt"*. The consultation document does not explain what, or indeed who, the "causes of debt" are. There are several reasons why an individual could suddenly find themselves in debt: losing their job, getting divorced or receiving a tax bill they are unable to pay, for example.

If the government means it is considering moving to a funding model which reflects how likely a particular institution is to tip a consumer into unsustainable debt, i.e. "polluter pays", it is unclear how this would work. The FCA does not regulate the institutions most likely to push people over the edge – namely utilities, local authorities and HMRC. It is also difficult to see the rationale for charging a levy on a different basis from the way the FCA normally does so.

## Chapter 3 - Pensions

### **Question 6: How could the organisational delivery of public financial guidance on pensions be improved to provide greater efficiency?**

Public guidance on pensions covers a broad range of issues. Consumers may have questions or need in-depth help and advice on a whole host of needs including: automatic enrolment; complaints and issues with workplace and occupational pension schemes; the state pension; pension related tax issues; tracing lost pensions; dealing with the private and state pension provision of a deceased partner; pensions and divorce and issues relating to the pension freedoms and flexibilities.

Within the pension freedoms area alone there are a myriad of questions that individuals have, not least whether and how to access their pension fund prior to full time retirement and whether they should transfer safeguarded benefits. From 2017 the question of whether an individual should assign their annuity will be added to this list.

People also need advice on related issues such as tax, debts, and non-pensions assets, particularly property.

Pensions guidance therefore requires a high level of specialism, experience and expertise.

Having two brands (i.e. the Pensions Advisory Service and Pension Wise) is confusing to consumers. We believe there should only be one main guidance service dealing with pensions, operating within standards set by the FCA in the way they currently do for Pension Wise. TPAS should be the lead organisation, and other organisations should refer consumers to TPAS for all pensions issues. Within TPAS there should be different tiers of 'guides'. Some (as now) could be Level 4 qualified to deal with the more complex and difficult areas.

### **Question 7: What scope is there to rationalise the funding of public financial guidance provision on pensions?**

Please see answers to Questions 5 and 6.

In addition we would suggest that it is not cost effective to have two different funding streams for TPAS - one for business as usual and one for Pension Wise. We have already seen TPAS directing budget from Pension Wise to core business as the demand for Pension Wise is low, whereas the demand for advice through TPAS is increasing. A single funding stream would give TPAS the necessary flexibility to manage demand.

## Chapter 4 – Money and Financial Capability

### **Question 8: Are the statutory objectives underpinning MAS the right ones?**

Aside from the coordination of debt advice, a role which was added to MAS's remit in 2012, MAS's statutory duties are, broadly, to increase knowledge and understanding of financial matters and to increase financial capability. These objectives are very similar to the financial capability objectives of regulators and independent financial consumer education bodies around the world<sup>4</sup>.

The MAS objectives are also consistent with the G20 financial consumer protection principles, agreed in 2011:

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<sup>4</sup> See, for example, 'Current Status of National Strategies for Financial Education' A Comparative Analysis and Relevant Practices' Grifoni, A and Messy, F (OECD, 2012).

*"Financial education and awareness should be promoted by all relevant stakeholders and clear information on consumer protection, rights and responsibilities should be easily accessible by consumers. Appropriate mechanisms should be developed to help existing and future consumers develop the knowledge, skills and confidence to appropriately understand risks, including financial risks and opportunities, make informed choices, know where to go for assistance, and take effective action to improve their own financial well-being".*

We conclude that the MAS objectives are still relevant as they stand.

### **Question 9: What role, if any, should a statutory body have in providing general money guidance?**

As evidenced in the Thoresen report<sup>5</sup>, there is consumer demand for impartial help and guidance on money related issues. That demand has grown in the years since the report, and following the 2015 pension reforms is now needed more than ever.

There are numerous organisations that provide free at the point of delivery financial guidance or debt advice, but the problem for consumers is a. knowing they exist; and b. finding the one that provides the right service at the right time.

Most providers of financial guidance are commercial and not impartial. For example, if a local bank is providing financial guidance and mentions a type of product, the consumer is likely to purchase that product from the bank rather than go elsewhere. This is sales masquerading as guidance. Many apparently impartial tools are not 'sales-free' either, and, while comparison tables may help consumers find the cheapest product, the product may well not be the most suitable for them.

We believe there is a role for a statutory body in:

- Identifying needs and gaps in the provision of advice that meets the Thoresen principles; and filling any gaps through a range of delivery partners;
- Being the first port of call for consumers, providing *impartial* information (e.g. comparison tables, adviser directories), answering straightforward queries (e.g. 'jargon busting') and signposting to specialist help (on debt, tax, benefits, pensions, etc.) and also to professional advice;
- Defining performance indicators, and evaluating the effectiveness of advice; and
- Encouraging people to make use of general financial guidance.

### **Question 10: What role, if any, should a statutory body have in supporting financial capability?**

The stated aims of the Financial Capability Strategy for the UK<sup>6</sup> are to improve people's ability to manage money well (both day to day and through significant life events) and their ability to handle periods of financial difficulty. The focus is on developing people's financial skills and knowledge, their attitudes and motivation.

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<sup>5</sup>[http://webarchive.nationalarchives.gov.uk/http://www.hm-treasury.gov.uk/media/8/3/thoresenreview\\_final.pdf](http://webarchive.nationalarchives.gov.uk/http://www.hm-treasury.gov.uk/media/8/3/thoresenreview_final.pdf)

<sup>6</sup> [https://prismic-io.s3.amazonaws.com/fincap-two%2F061eb6c6-2a5f-4b02-a01b-08de8bfc4750\\_uk+financial+capability+strategy.pdf](https://prismic-io.s3.amazonaws.com/fincap-two%2F061eb6c6-2a5f-4b02-a01b-08de8bfc4750_uk+financial+capability+strategy.pdf)

As with advice, a statutory body has a role in identifying needs and gaps in financial capability, and working with partners to deliver. In addition, the body should demonstrate how it is meeting its statutory objectives, through measuring performance and providing an evaluation framework for financial capability initiatives. It should learn from best practice, including internationally.

Financial capability needs to be considered alongside supply-side reform and conduct regulation in order to lead to better consumer outcomes. The statutory body should work with the regulator on the balance between supply-side and demand-side remedies.

## **Chapter 5 – What does the government need to provide?**

### **Question 12: How do you think that the government could best complement voluntary sector provision of financial guidance?**

We are not clear why this question focuses only on complementing voluntary sector provision of financial guidance.

The government can complement financial guidance, from whatever source, by promoting it at various 'touch points'. This could be anywhere that people use public services, from applying for a driving licence, visiting a GP, registering a birth, paying taxes, etc. This could help draw attention to more niche providers of financial guidance, which consumers might not be aware of.

### **Question 14: Do you think the government should explore any alternative options for the provision of public financial guidance?**

Any alternative the government considers should meet the Thoresen principles, and be either free to the user or very low cost.

## **Chapter 6 – How should it be provided?**

### **Question 15: Are the suggested core services the right ones? Should any core services be added?**

Co-ordination of general financial guidance should be added to the list of core services.

### **Question 16: Are the suggested principles the right ones to underpin the statutory provision of the core services? Should any principles be added or removed?**

We have referred above to the Thoresen principles, which we believe are still valid for the provision of statutory publicly funded guidance. It follows that a 'cohesive' approach should mean that the government should not compete with business models meeting these principles, in particular those delivering *impartial* advice. Where there is a gap in impartial advice, the government should step in.

We support the other principles – rationalised, efficient, evidence-based – but we do not understand what 'sector' the consultation paper means under the 'promoting innovation' principle.

### **Question 17: Do you think that statutory provision should be restructured to improve the guidance service to consumers, and if so, how?**

Consumers don't necessarily know where to go to get advice on the specific topic they require it for. One of the shortfalls of public guidance providers (such as Pension Wise) is

that they are unable to provide a holistic service. It would therefore make sense for statutory provision to be a 'one stop shop' that could signpost individuals to where they need to go, but not necessarily deliver the advice itself. This central service would need to ensure it has digital capability so that it can deliver an interactive website alongside a telephone service to reach as many consumers as possible.

The FCA could set standards for this central financial guidance service. This could then allow non-statutory bodies to expand into the public financial guidance market whilst ensuring the same set of standards is applied across the public and commercial provision. This would increase the available channels and delivery mechanisms for financial guidance, and the government could issue vouchers for consumers to use with commercial firms or third sector organisations, as suggested in paragraph 5.10 of the consultation document.