

Financial Services Consumer Panel

AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Independent Money Advice Service Review
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Review of the Money Advice Service

This is the Financial Services Consumer Panel's response to the Government's call for evidence on the Money Advice Service (MAS).

Increasing the financial capability of UK citizens remains as important and urgent as when Parliament passed the 2010 Financial Services Act, which, among other things, set the statutory objectives for MAS (then the Consumer Financial Education Body). Competitive financial services markets which serve consumers well cannot be achieved by supply-side regulatory measures alone. Even if it were feasible, the cost would be prohibitive.

Better financial capability can lead to significant long term benefits by helping people make well informed and confident financial decisions, and empowering them to manage their finances more effectively. This has a range of benefits for individuals, families and society as a whole. In turn, well-informed consumers can exert competitive pressure on the marketplace, leading to innovation, efficiency and better customer service. In a complex marketplace, financial capability will not do the job on its own, but it is an important part of the solution.

The Panel also believes that generic financial advice is particularly important given the low levels of consumer capability in the UK and the lack of trust and confidence in the financial services industry. Generic advice can also contribute to financial capability by helping people engage with their finances and make choices based on impartial information.

Against this background, the Panel strongly supports the existence of MAS and we want to see MAS fulfil its objectives as laid out in statute. Overall, the Panel has noticed improvements in the direction of MAS's business, we commended MAS for a much better business plan for 2014-15 than that for the previous year.

The Panel's role is to be a critical friend of MAS, we offer views on areas for improvement below, and provide responses to questions where we have direct experience of, or insight into, how MAS operates.

Stakeholder relationships

The Panel continues to believe that it is important that MAS forms and nurtures relationships with other organisations so that consumers are efficiently directed to other sources of advice and support according to their needs.

To avoid the perception that MAS is unnecessarily duplicating or seeking to replace existing services the Panel believes it is critical that it should review with its stakeholders what it does and develop a clear position on whether and when it is a co-ordinator or a provider of services. Its role as coordinator should not get in the way of consumers having access to services, or add unnecessary layers of bureaucracy.

We believe that, in particular, MAS and the Financial Conduct Authority (FCA) need to work much more closely together. There is duplication between the two organisations at times. For example, the FCA carries pages on its website on how consumers should protect themselves from fraud and has a consumer helpline offering impartial information and general guidance. We believe it would be better for MAS to deliver this kind of information and the FCA to signpost consumers to it. It may even be helpful to look at the feasibility of a single consumer helpline covering other members of the regulatory 'family', the Financial Ombudsman Service and Financial Services Compensation Scheme as well. Consumers do not understand the finer points of the regulatory architecture, and why should they? A single point of contact could be convenient for consumers and get them to the right place quickly.

MAS also needs to be more transparent about its procurement strategy, so that it can reach a wider set of potential suppliers.

As a leader and influencer of financial capability in the UK, the Panel believes that it is vital that MAS is engaged with its counterparts at a European and international level. As well as influencing wider financial capability initiatives on the basis of sound evidence, this would allow MAS to monitor best practice and benchmark against other organisations and other jurisdictions. We would like to see this international benchmarking reflected in the annual business plan, and in the forthcoming financial capability strategy.

Consumer Access to MAS

We are pleased that MAS is looking to help people at different life stages and from different socio-economic groups. However, there is a significant risk that in trying to help a very wide range of consumers, MAS's resources may be spread too thinly. It is important that MAS continues to define its target audience and communicate how it is reaching them, using the best mix of channels in each case.

We also think that MAS should go beyond debt advice and basic money management, to helping consumers understand financial services products and deal with events like choosing a pension or a mortgage; converting their pension savings to retirement income, funding long term care, and investing and saving for the future. Although there is guidance on the MAS website, many people prefer to talk through complex issues such as these on the telephone or face to face. Impartial help in these areas is not easily available from other sources, although the guidance guarantee should help with retirement issues. We also note that the MAS stakeholder pension comparison table is no longer available. Yet this was one of the only comparison tables of its type in existence.

Answers to questions

Question 1/Question 8

In what areas do consumers' awareness and understanding of financial matters most need to be enhanced? Where is detriment most prevalent and most material?

What should MAS's balance be between focussing on broad consumer outcomes and focussing on outcomes more specifically linked to current issues?

For people with few products, eg a bank account and a couple of general insurance products, they need to understand how these operate, what they are paying for, be alert to unwanted 'add-ons' and know how to get a better deal. While detriment might be small in cash terms, it is widespread and could still be significant for individuals. At the other end of the scale, people can potentially lose thousands of pounds through investment scams. Fewer people are affected but the detriment can be catastrophic.

The need for awareness and understanding is not always static; it depends on risks in the marketplace and changes in the external environment. For example, auto-enrolment means an increasing number of people are saving in a workplace pension, with the vast majority opting for the default fund. Yet most will be unaware of the charges they are paying and the impact on their pension savings, or what their options are.

A rise in interest rates would have a big impact on consumers, particularly those who are, or would become, mortgage 'prisoners', trapped in an expensive deal. People need to be aware now of the risks, and how they can best manage these risks.

Pension's liberation carries risks of detriment, which we cover under Q10. The guidance guarantee will help, but people still need to be alert to products which are poor value for them, or outright scams.

The growing use of online sales of investments also carries pitfalls. Costs and commission charges may not be transparent, people may not know it can cost more to buy direct than via a platform, and, crucially, they may not understand that by buying 'execution only' they are losing consumer protection rights.

People also need to be aware of the risks and benefits of innovations such as crowd-funding and peer to peer lending.

The issues above are by no means exhaustive, but illustrate the challenges MAS faces in balancing the need to build financial capability for the future with raising awareness and understanding of current market issues. As we have said elsewhere in this response, the Panel believes that MAS and the FCA need to work closely together on priorities for awareness and understanding and to determine the balance between regulatory activity and measures to increase financial capability.

Question 4:

What potential is there for the gap in consumer capabilities to be addressed through industry doing more – for example, by reducing complexity and helping make its products more understandable? How does this compare to the potential for reducing the gap in consumer capabilities through education and advice?

The Panel has always believed that the industry should do much more to reduce complexity in products and advice services. At a minimum, consumers should be able to expect products designed for their needs, be able to compare products on a like for like basis, understand the costs, benefits and risks of what they are buying, and have concise terms and conditions, written in plain English. However, various initiatives in this area have struggled to find a foothold. The FSA's 'treating customers fairly' initiative did not work. The 'simple products' initiative brought about by the Sergeant Review has recently seen a squabble within the industry about which accrediting body should produce the simple products code. The Retail Distribution Review – intended to increase professionalism and transparency – has also had a shaky start. Successive FCA reviews

of implementation have found problems, including with 'in kind' inducements to advisers to sell particular products, and failures to disclose costs properly.

Reducing complexity would make life much easier for consumers to get a better deal from financial services, but, as experience shows, industry is unwilling or unable to deliver. It is asking too much of financial education to fix the problems of an industry that wilfully ignores consumers' needs for simplicity and transparency. All it can do is help consumers become more savvy, so they ask the right questions, know what they want, understand the risks, and can find impartial advice.

Question 7:

Do you think that the strategy set by MAS for interpreting its legislative remit remains appropriate? What improvements could be made?

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. That should be its focus. Financial resilience is not the same thing. We are aware, however, that MAS is developing a UK financial capability strategy, and will respond to the consultation on that in due course.

We believe that MAS should target those groups which are currently the least capable and at most risk of detriment. This is similar to the 'vulnerable groups' defined by Otto Thoresen in his review of generic advice¹. Note this is not the same as 'low income' or other groups which might be generally thought of as vulnerable. An individual suddenly receiving a large sum of money – a bequest or lottery win – could be very vulnerable, for example. By contrast, a student managing her money well but with huge debts may be fine. People's needs change, and MAS's emphasis on life stages where people are most vulnerable is welcome. As noted elsewhere, external events can leave groups vulnerable, too, the pensions changes announced in the 2014 Budget being a notable example.

Question 9:

What role should MAS play in supporting the provision of education in schools? Do you agree that MAS should limit (as now) the role it plays or should it divert resources to this area?

Since MAS was set up, the Government has made financial education a compulsory subject in the secondary school curriculum in England. It is already taught in the devolved administrations. This is good for young people, who will learn a vital life skill before they enter the world of work. It should also be good for MAS: as generations of young people leave school with personal finance skills, MAS can, in theory at least, shift its attention to priority adult groups. But this relies on personal finance being taught well, and that requires money, to train teachers and support them with resources. Given the potential payback, the Panel believes that MAS should make an assessment of the resources available to support financial education in the curriculum, and consider funding any gaps as necessary. The Panel does not, however, believe MAS has the knowledge and skills for direct delivery in this area.

Question 10: What are, and will be, the needs of consumers in the retirement/decumulation phase of their lives, especially given the changing

¹ http://webarchive.nationalarchives.gov.uk/http://www.hm-treasury.gov.uk/media/8/3/thoresenreview_final.pdf

nature of retirement itself and the evolving retirement income market? What role should MAS play in supporting consumers to meet these needs?

The pensions reforms announced in the 2014 budget will radically change the retirement income market. This presents big risks for consumers, as well as opportunities.

As we indicated in our response to the Treasury consultation², one of the main risks we believe consumers will face post April 2015 is understanding and negotiating their way through the plethora of new, and potentially risky, products that will appear on the market. Consumers are ill-equipped to make these choices. The Panel's research into the annuities market³ illustrated a widespread lack of understanding of the annuity options available and a general fear of interacting with financial markets at this crucial time. We found that many consumers, although aware of the ability to shop around, found the process so difficult and confusing that they shopped then stopped. Many preferred to stay with their existing pension provider as this seemed to them the simpler and often the safer option, even though they might not have got the best deal by doing so. The complexity and confusion will of course be multiplied when there are many more product types to choose from. It is worth noting that there is a fundamental disconnect in the Government's policy here – increasingly, people are being autoenrolled into pensions, with the vast majority opting for the default fund. They have no engagement with their pension savings at all, then, suddenly, 10, 20, 30 years down the track, are expected to deal with a complex set of decisions for which they are wholly unprepared.

The need for unbiased, high quality guidance and information will be more crucial than ever in the new landscape. Fewer and fewer people work to retirement age then stop and draw an income. They may defer retirement, or work part-time for a while, for example. The guidance needs to take account of these changes, it cannot simply be a 'one-off'. It will also need to take account of individuals' total assets, not just their pension pot: many people have property worth far more than their pension and other savings. The interactions with tax and long-term care also need to be considered.

The Government has already decided that MAS will be part of the short-term plan for delivering the guidance guarantee. The Panel believes that MAS is well placed to provide this help and information, but it will need to shift up a gear to do so in the longer term. Many people facing decisions about how to manage after they retire will not need budgeting or debt advice. They will, however, need more than a website, so it will be vital that MAS maintains a genuinely multi-channel approach which responds to consumers' preferences.

Question 11:

To what extent should the FCA's new statutory remit affect the relationship between the FCA and MAS?

MAS was of course set up when there was a single financial services regulator, and one with a very different statutory remit. The FCA and MAS objectives are more consistent and, in consequence, the two organisations need to work more closely together. The FCA's remit to make financial services markets work better for consumers requires action on both demand and supply sides. The Panel believes there should be strategic oversight of how regulation and financial capability initiatives fit together and contribute to improvements in the operation of retail markets.

As noted above, the Panel also believes there is significant overlap between MAS and the consumer-facing communications from the FCA. This is both wasteful and confusing for

² [Consultation Response, Freedom and Choice in Pensions](#)

³ [Annuities: Time for Regulatory Reform 2013](#), Financial Services Consumer Panel

consumers. We believe direct-to-consumer communications should be the subject of a joint strategy between the FCA and MAS, with robust protocols in place for day-to-day communications.

Question 19:

Is the way MAS measures its performance optimal? If not, how can MAS best measure its impact and value for money?

We believe that MAS should measure its impact through regular surveys of financial capability, ideally tracking measures of capability in the UK population over time.

We also believe MAS should set out short and medium term goals, explaining how these link to its statutory objectives. Likewise, KPIs should be linked to consumer capability or debt outcomes.

Question 21:

To what extent, if at all, should MAS devote resources to public policy issues such as the tax and benefits system?

MAS has no statutory remit in respect of public policy. However, it is often necessary for consumers to understand the tax or benefit consequences of particular courses of action. As a simple example, people need to understand that ISA savings are tax free up to a limit. As people make more complex 'at retirement' decisions, they will need to understand the tax consequence of taking all their pension savings at once, or what impact savings will have on their costs of long term care. The guidance guarantee will need to cover these issues. In short, it is impossible to divorce financial decisions from the public policy environment in which they take place. Likewise, public policy can suddenly make groups of people vulnerable. Pensions liberation is one example, universal credit another. The latter will create a need for people to budget for themselves when they may not have done so before. At the very least, MAS needs to decide whether this group should become a high priority for action.