MONEY ADVICE TRUST

BUSINESS DEBTLINE · NATIONAL DEBTLINE · WISER ADVISER

Consultation response: Financial Capability Strategy for the UK

Response by the Money Advice Trust

Date: October 2014

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Introduction

About the Money Advice Trust

The Money Advice Trust is a charity founded in 1991 to help people across the UK tackle their debts and manage their money wisely.

The Trust's main activities are giving advice, supporting advisers and improving the UK's money and debt environment.

We help approximately one million people per annum through our direct advice services and by supporting advisers through training, tools and information. We give advice to around 200,000 people every year through National Debtline and around 40,000 businesses through Business Debtline. We support advisers by providing training through Wiseradviser, innovation and infrastructure grants.

We use the intelligence and insight gained from these activities to improve the UK's money and debt environment by contributing to policy developments and public debate around these issues.

Public disclosure

Please note that we consent to the public disclosure of this response.

Introductory comment

The Money Advice Trust welcomes the Financial Capability Strategy for the UK and the focus on increasing financial capability to empower people to make informed decisions and take positive actions to achieve the best outcomes.

Our key points are as follows:

- **Clear goals:** To have a genuine impact we believe a successful strategy needs to be ingrained in the UK's attitudes towards their finances with clearly defined short, medium and long-term goals subject to evaluation..

- **Targeting priority groups:** To help achieve this we support the targeting of priority groups and the associated actions the strategy sets out. We believe that rather than being isolated these groups exist in overlapping circles, for example people in financial difficulties can be found amongst younger people, those preparing for later life and older people. We therefore suggest that the actions to address issues relating to debt and money management such as effective budgeting and accessing debt advice early will span across the life stages.

- **Focus on vulnerable consumers** The strategy needs to be inclusive in its approach in order to ensure it has a wide reach and is accessible to as many people as possible. With this in mind we would like to see a greater focus on vulnerable consumers woven in to this strategy. We would also like to see it reference people who live in long-term poverty for whom the goal of financial capability as set out in the strategy is largely unachievable.

- **Accessibility of financial services:** We support the proposed actions relating to the ease and accessibility of financial services but do not feel that these go far enough. In particular we note that there is an emphasis on the consumer and their failure to choose wisely, rather than the responsibilities of the industry and the lack of suitable products. We would suggest the strategy should go further in this section and have offered some ways in which we believe this may be addressed in this response

- **Links with debt advice:** There is a strong association between debt advice, where our specific expertise lies, and financial capability; these connections should be maximised. We know from our National and Business Debtline services that poor financial capability can lead to consumers falling into debt, and equally that debt advice itself can help to improve consumer's financial capability. Part of the advice process involves a conversation about budgets and establishing a thorough and sustainable budget (e.g. using the Common Financial Statement) with the client. For many of our clients, taking advice is the first time they undertake a budgeting process. The strategy needs to recognise the role advice agencies, and the advice process itself, play in strengthening long-term financial capability for those who are already in debt. We are happy to work with MAS to share our experience in this area.

It is clear that a strategy which aims to bring about the changes required to achieve a financially capable nation will require collaboration between stakeholders including the advice sector, regulators and the credit industry as well as the Government. We welcome the opportunity to be involved in the on-going shaping and delivery of the strategy going forward.

Responses to individual questions

Question 1 – What time period should the Financial Capability Strategy cover?

We agree that the scale of the challenge and the change the strategy seeks to put in place will require an on-going and long-term commitment from stakeholders including the voluntary and community sector, the financial services industry, Government and regulators as well as the housing sector and utility providers.

As part of our vision to tackle unmanageable debt and help people to manage their money more wisely, we regularly engage with these stakeholders and recognise the key role they have to play in supporting the delivery of this strategy.

We have seen significant progress over the years in improving outcomes for people in debt as well as the overall landscape for people juggling challenging finances. Despite this, we are aware there is still a lot of work to be done and we therefore believe a successful strategy should not be given a life-span but instead positioned as an intrinsic part of financial capability that should become embedded and ingrained in the UK's attitude towards their finances.

However, we understand that to achieve this, the strategy must have clear objectives which are likely to evolve over time to ensure that the strategy is responsive to the changing landscape and remains fit for purpose. We therefore recommend that measurable outcomes are spilt into short, medium and longer-term goals.

Question 2 – What is your view of the Financial Capability Framework

We welcome the framework and agree that it effectively encapsulates the various factors and influences impacting on financial capability.

We would suggest there would be value in expanding 'Connection' to include two additional influences. The first relates to the accessibility of financial services where there is an associated but separate issue of availability. Whilst certain products may be hard for some people to access (for example due to criteria) others are inaccessible simply because they do not exist. This can be highlighted by the lack of basic bank accounts for people who are bankrupt which impacts on financial capability and can also result in financial exclusion for those encountering this problem. The second relates to the issue of trust in financial services and providers. We believe this is a major factor that can impede peoples' willingness to connect and addressing this will be a vital link in increasing capability.

We would also suggest expanding 'Ability' to include vulnerability which we feel is under-represented in the strategy at present. This is an issue that has a major impact on financial capability and sits outside of both skills and knowledge although it may impact on both.

With regard to the financial well-being staircase, we believe that the model is a useful tool to capture the different levels of financial capability. However, we do feel that 'Constantly struggling' and 'Unable to keep up' are too close together and neither effectively capture the impact of debt problems. We would therefore suggest making the last step more explicit in its reference to having unmanageable debt.

Question 3 – How far do you agree with the objectives of the Financial Capability Strategy?

We support the proposed objectives.

Question 4 – What is your view of the financially capable behaviour domains?

We support the proposed behaviour domains. Preventative aspects such as saving to build resilience and effective money management are key steps towards helping to avoid debt caused by income shocks.

Making money go further by maximising income is a key step in delivering these goals and with the roll-out of Universal Credit we see this becoming a core focus. We believe free-to-client debt advice providers such as National Debtline and Business Debtline have a key role to play in the delivery of clear and concise information to potential and existing claimants and we are poised to support the DWP with this.

We would highlight that our own research[1] shows that for some, despite displaying many of the financially capable behaviours listed, they are restricted in the informed decisions they can make due to factors beyond their control. Whilst we understand that this strategy seeks to address financial capability rather than financial exclusion, we do feel it is important to acknowledge the group of people for whom the goal of financial capability as set out in the strategy is largely unachievable.

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[1] Facing the squeeze – A qualitative study of household finances and access to credit. PFRC University of Bristol and MAT. Oct 2011
http://www.infohub.moneyadvicetrust.org/content_files/files/facing_the_squeeze_2011_final.pdf

These include people existing in long-term poverty, many of whom are used to managing their money well from day-to-day but are excluded from achieving other behaviours such as building resilience due to their low income levels.

Similarly, the financial well-being staircase refers to the fact that many on the bottom step *‘need help to recover and learn from the experience to be more financially capable in the future.*’ However, our experience shows that some of those people will be prevented from moving from the bottom two steps due to their situation rather than any behaviour that can be remedied. Reflecting this distinction in the wording of this section may help to balance the perspective and avoid any perception that the strategy assumes a judgmental position.

Question 5 – How important is it to track financial wellbeing to help measure the impact of the Financial Capability Strategy?

We believe this is an essential part of the strategy and will be vital in ensuring it meets the objectives and evolves to reflect the evolving landscape in which it exists.

Question 6 – What are your views on the priorities for action that have been identified as a focus for the strategy? Should any additional areas be added?

We support the priorities for action and welcome the addition of people in financial difficulties which we believe is a critical group when tackling financial capability.

We would suggest that rather than being distinct and separate from each other, the priority groups identified exist in overlapping circles. Therefore, many of the actions such as ‘effective budgeting’ and ‘money management skills’ and clearer information about ‘shopping around to get the best deal’ apply across each of these groups but currently only appear in one. In addition, ‘People in financial difficulties’ can sit within each of the three stages from young people, through to people preparing for later life and older people.

We would also like to see vulnerable consumers included in the priority groups and again this spans across the existing ones. We believe more needs to be done to support financial capability amongst people who may find themselves in this situation at any point in their lives and the strategy provides an ideal opportunity to do this.

Question 7 – How far do you support the strategy’s aim for children and young people?

We support the proposed aim of the strategy in this respect.

Question 8 – What is your view of the recommendations for action relating to children and young people? How could they be improved?

We support the proposed recommendations for action relating to children and young people.

We would recommend expanding the actions to include working with financial organisations and service providers with which young people are particularly likely to engage, including the mobile phone and payday lending industry. In particular, we would like to see firms in these groups encouraged to increase their engagement with and support of the free-to-client debt advice sector.

Question 9 – How far do you support the strategy's aim in respect of preparing for later life?

We support the proposed aim of the strategy in this respect.

Question 10 – How far do you support the strategy's recommendations for action relating to preparing for later life? How could they be improved?

We support the proposed recommendations in the strategy. In particular, we welcome the focus on budgeting, as we believe that effective and sustainable budgeting provides a cornerstone for effective money management.

As previously mentioned, we would also like to see actions relating to vulnerable groups included to ensure that the approach is inclusive.

Question 11 – How far do you support the strategy's aims for older people?

We support the aims for older people.

Question 12 – What is your view of the recommendations for action relating to older people? How could they be improved?

We support the recommendations proposed and in particular the early uptake of debt advice.

Whilst we note the action to help older people to 'maximise their financial means', we would also recommend that an increase in the uptake of benefits is set out as an explicit action within the strategy. According to research conducted for Age UK, despite the fact that many pensioners live on low, fixed incomes and 1.6 million are living below the poverty line, up to £5.5 billion in financial help is going unclaimed every year.[2]

We believe that it is vital that this is addressed and debt advice providers such as National Debtline are well placed to offer the guidance to address this issue as part of the wider money advice we provide when helping clients.

We also feel that reference should be made to vulnerable groups. The insights allude to it by highlighting the number of people in the UK who currently have dementia but we suggest that specific mention is made of it here.

Question 13 – How far do you support the strategy's aims for people with financial difficulties?

We support the proposed aims of the strategy for people with financial difficulties.

Question 14 – What is your view of the recommendations for action relating to people with financial difficulties? How could they be improved?

We welcome the proposed actions in relation to people with financial difficulties. We know that accessing advice has a major impact on peoples' situations.
For example:

- 85% of National Debtline callers felt more in control and knowledgeable in managing their money following our advice;
- 91% of National Debtline callers who make agreements with their creditors have maintained them or completed them three years on; and
- 87% of National Debtline callers found that seeking advice on their debts improved their health and wellbeing.[3]

Our research also shows that early intervention can make a significant impact on clients where lenders effectively identify those customers who appear to be struggling with their commitments. If lenders apply a sensitive strategy for contacting and helping these customers, there is the potential that this early intervention will significantly widen the range of options available to them. An added benefit is that this increases the number of people receiving early advice on their financial difficulties, which can have a positive impact on the financial health of households across the UK.[4]

In addition, we believe that the cornerstone of effective debt advice is a thorough and sustainable budget. The Money Advice Trust operates the Common Financial Statement

[2] http://www.ageuk.org.uk/latest-press/one-in-four-pensioners-struggling-financially
[3] Money Advice Trust impact report 2013:
http://www.moneyadvicetrust.org/SiteCollectionDocuments/Impact%20Reports/MAT_Impact_Report_2013_FINAL.pdf
[4] Understanding financial difficulty: Exploring the opportunities for early intervention. PFRC University of Bristol and MAT. Nov 2011
http://www.infohub.moneyadvicetrust.org/content_files/files/understanding_financial_difficulty.pdf

(CFS) budgeting tool on behalf of the sector.[5] The CFS creates a uniform approach to how financial statements are prepared, to encourage consistent responses from creditors. This should mean that when someone is faced with a difficult financial situation, a fair resolution can be found without undue delay. We are also currently working closely with the Money Advice Service in the development of a new single budgeting tool for use across the sector. We would propose that the uptake of a consistent budgeting tool by stakeholders should be a requirement and included in the actions.

We note that whilst both seeking early debt advice and effective budgeting are mentioned in some of the priority groups (children and young people, preparing for later life and older people in retirement) this is not a consistent approach across all three groups. We appreciate that actions to support people with financial difficulties are addressed as a specific priority for the strategy however, we believe that it is important to reflect that both budgeting and seeking debt advice when things go wrong are important messages that span the life stages.

We support the plan to work with organisations such as the DWP, housing associations and credit providers to develop and extend effective methods to reach more of the people who are struggling to keep up. In 2013, we helped almost one million people directly (through our client services and indirectly through training advisers to help people) and we plan to increase this number over the next three years. We are focused on supporting more clients through innovative work with key partners and by reaching more clients via our online service My Money Steps. We therefore look forward to engaging with stakeholders to explore how we can achieve this together. A critical part of these discussions will be how funding for the debt advice sector will ensure that this work can be delivered throughout the life-span of this strategy and beyond.

There is a substantial sector of people in debt who are currently unable to access debt relief because they do not have any available income to pay creditors and are therefore not eligible for an IVA or debt management plan, cannot afford the fee to go bankrupt, or are outside the DRO eligibility criteria. We are also keen to see a review with the aim of reforming the debt options available to ensure that they meet the needs of our clients. We have suggested substantial expansion of Debt Relief Order (DRO) parameters to ensure more people quality for help. We are also looking at how an amended form of the Scottish Debt Arrangement Scheme could work in England and Wales.

Question 15 –How far do you support the strategy’s aims in relation to the ease and accessibility of products and services?

We support the proposed aims of the strategy in this respect.

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[5] The CFS is a budgeting tool that can be used by advice agencies and other third party organisations to make debt repayment offers to creditors on behalf of clients. It provides a detailed budgeting format enabling an accurate overview of a client's income, expenditure, assets and liabilities to be produced. http://www.cfs.moneyadvicetrust.org

Question 16 – What is your view of the recommendations for action relating to the ease and accessibility of financial services? How could they be improved?

We support the proposed actions relating to the ease and accessibility of financial services but do not feel that these go far enough. However, we note that there is an emphasis on the consumer and their failure to choose wisely, rather than the responsibilities of the industry and the lack of suitable products. We would suggest the strategy should go further in this section.

For example the Government could fund awareness campaigns about the benefits of credit unions and debt advice and the Money Advice Service could take a role in promoting alternatives to payday lending such as credit unions though a national advertising campaign. Credit unions could work with the debt advice sector to develop a support package for debt advice clients that includes a budgeting account and a savings facility to help with financial recovery once debts are cleared. A small revolving credit facility could help to smooth financial emergencies and avoid debt clients getting further into debt with high cost short term lenders.

As previously mentioned, we would also like to see specific actions relating to vulnerable consumers in this section, and a reference to working with the financial industry to develop products where options are currently unavailable or very limited.

With relation to the aim of working with the FCA to help clarify the cost of credit in ways people can understand, this is to be commended as far as it goes. However, the responsibility is being placed on consumers to better understand the fees, charges and costs of the credit they are taking out. The proposed action is silent on the responsibility of regulators and the credit industry. We believe that the FCA should be looking at whether the charges, particularly for falling behind with payments, are fair and reasonable in the first place and looking to take the appropriate action to protect consumers.

We support simple products with clear terms and conditions. However, there is a clear lack of products that have been developed with the needs of the financially excluded consumer in mind. We have made reference to the lack of access to a basic bank account for people who have gone bankrupt. We would also point out that there is no responsibility placed on the industry to supply products that may be financially beneficial but do not have a profitable market attached.

We would give the example of a simple “jam-jar” type of bank account which is still not available, despite the DWP attempting to provide a free product for Universal Credit recipients. This is clearly of particular importance for the DWP in looking at budgeting for those moving from weekly or fortnightly benefit payments to monthly payments under Universal Credit. It is vital that this type of account is offered on a no-cost basis to people who need them.

We would also mention the call for an accessible short-term loan product that is substantially less expensive than products offered the high -cost short term credit market. This could be offered by banks and other mainstream credit providers. This has been recently called for by Citizens Advice.[6]

A truly innovative response from the banking industry would be to look at the example of Australia where the National Australia Bank has partnered with The Good Shepherd Microfinance and the Australian Government to offer a range of shop-front community finance products such as Good Money[7] and the No Interest Loan Scheme[8] which is the Australian equivalent of the social fund budgeting loan scheme. This partnership also offers low-interest loans for low-income households through the StepUP[9] scheme.

Question 17 – How far do you support the strategy's aims in relation to influencing social norms?

We support the proposed aims of the strategy in this respect.

Question 18 – What is your view of the recommendations for action relating to influencing social norms? How could they be improved?

We support the proposed recommendations for action as they relate to the influencing of social norms.

We would also recommend actions to increase the number of people accessing free, high quality advice services (referred to in the 'Facts and insight' section on page 24 of this document). Actions to break down some of the inhibitors to getting advice including lack of awareness of free services, early intervention strategies and addressing the stigma of debt will be critical to achieving this.

Question 19 – How far do you support the strategy's aims relating to evidence and evaluation?

We support the proposed aims of the strategy in this respect.

Question 20 – What is your view of the recommendations for action relating to evidence and evaluation? How could they be improved?

We support the proposed actions with regards evidence and evaluation.

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[6] http://www.citizensadvice.org.uk/press_20141016b
[7] http://goodshepherdmicrofinance.org.au/services/good-money
[8] http://goodshepherdmicrofinance.org.au/services/no-interest-loan-scheme-nils
[9] http://goodshepherdmicrofinance.org.au/services/stepup-low-interest-loans

Question 21 – How would your organisation like to be involved in further development of the strategy?

Our specific expertise is in the area of debt advice. However, there is a strong association between debt advice and financial capability and these connections should be maximised. We know from our National and Business Debtline services that poor financial capability can lead to consumers falling into debt, and equally that debt advice itself can help to improve consumer's financial capability.

Research shows positive benefits from taking advice in the short and long term. For example 81% of respondents who had used BIS funded debt advice said it had improved their debt situation. MAS own research showed that clients reduced or cleared some of their debts within six months of receiving advice, and that 81% felt more comfortable in how they go about dealing with their financial situation. Our own research shows that 85% of National Debtline callers felt more in control and knowledgeable in managing their money following advice.

Part of the advice process involves a conversation about budgets and establishing a thorough and sustainable budget together with the client. For many of our clients, this advice process is the first time they undertake a budgeting process. The Common Financial Statement (CFS), a budgeting tool run by the Trust on behalf of the sector, helps both the client and creditors to get an accurate view of income, expenditure, assets and liabilities.[10]

The strategy needs to recognise the role advice agencies, and the advice process itself, play in strengthening long-term financial capability for those who are already in debt.

Our Wiseradviser training service also supports many of the advisers in the UK, and we will shortly be launching a Wiseradviser course to help advisers imbed financial capability in the debt advice process. This work has been funded by the Money Advice Service for advisers working within the Face-to-Face Debt Advice Project. We would be happy to work with the Money Advice Service to roll this course out to the wider debt advice sector.

Question 22 – What role do you see your organisation playing in the implementation of the strategy?

As above, we are happy to work with MAS to share our experience in this area and work on possible training opportunities for debt advisers.

For more information on our response, please contact:
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