



# The Draft Financial Capability Strategy for the UK

CAP's official response to the Money Advice Service's consultation

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against  
poverty

**CAP**

Lifting people out of debt and poverty

## Executive summary

Christians Against Poverty (CAP) welcomes the Money Advice Service's ambition to improve financial wellbeing across the UK. It is exciting to consider the potential impact the actions undertaken, as part of the Financial Capability Strategy, will have on lives across the nation.

Financial capability is at the heart of what we do at CAP. Through our network of 270 CAP Debt Centres, CAP improved the financial wellbeing of 11,996 households in 2013. In addition to this, CAP is the largest provider of face-to-face financial education in the UK, with 879 CAP Money Churches providing a three-week money management course, equipping over 12,000 people each year to budget, save and spend wisely.



The strategy targets many of the key aspects of financial capability, boasting a breadth of aims and comprehensive lists of recommended actions. We appreciate the opportunity to feed into the strategy. It is our hope that the insights gained from our 18 years experience helping those struggling with unmanageable debt, and in particular as a provider of financial education since 2008, will add valuable support and enhance the development of the strategy.

We would like to praise the Money Advice Service for their determination and drive to improve financial wellbeing across the UK. We are passionate about continuing to empower local communities, offering holistic support to those in financial difficulty and expanding our range of services to tackle the causes of poverty. To this end, CAP now operates 101 CAP Job Clubs and is piloting 22 CAP Release Groups, to tackle dependencies and unemployment.

Thank you for your continued commitment to improving financial wellbeing across the UK.

**Dawn Stobart**

**Director of Debt Management and Creditor Relations**

"After the CAP Money Course, I feel more in control of my finances, instead of them controlling me!"

## 1. What time period should the Financial Capability Strategy cover?

### **The proposed timescale is appropriate.**

The five-year period gives adequate time for new initiatives to be set up, and the initial results to be observed. It also allows the strategy to be revaluated and improved for the longer-term. As a crucial life skill, programmes to equip people and encourage them to make financially capable choices will have a lasting impact.

### **Consideration should also be given to the longer-term.**

Although, the strategy aims to see a material effect up to 2025, it may be over a much longer time horizon that the full extent of the strategy's implications are evident. Furthermore, while five years is a good length of time to instigate initial actions, it is important to remember this should be an on-going project. There will always be groups of people that require financial education and reactive provision for financial difficulties. Therefore, CAP would encourage the Money Advice Service to include impacts that might develop after the strategy has officially ended in its benefit evaluations and to see this strategy as a basis for continued provision.

## 2. What is your view of the Financial Capability Framework?

### **The Framework is extremely helpful to understand the complexities of financial capability.**

By providing a breakdown of the contributing factors and their inter-related nature, the framework is useful to assess whether proposed actions will target all areas. This will be helpful to maximise the overall impact of the strategy.

### **Motivation is important, but shouldn't be the main focus of the strategy.**

Motivation is identified as the most important factor, and to some extent it has an essential role in encouraging people to engage with the strategy. However, ability (skills and knowledge) underwrites the capacity a person has for financially capable choices. Therefore, it is important to remember motivation alone is not enough without the facilities to provide education. It is likely increasing motivation would have very a short-lived effect if a person is unable to turn this into an actual increase in their financial capability. However, increasing ability will have a long-term effect, as even if motivation wains at points due to external factors, people will still be capable of financially capable behaviours when circumstances necessitate.

## 3. How far do you agree with the objectives of the Financial Capability Strategy?

### **The objectives demonstrate a good balance between the inter-related factors.**

Tackling personal financial capability, barriers within the system and environmental factors creates a comprehensive set of objectives for the strategy. It is particularly encouraging that the strategy is aiming to not only help those in financial difficulty but also has prevention aims. This is consistent with the work CAP has been doing through the CAP Money Course, as well as through our debt counselling network.

### **Financial resilience should be a key objective of the strategy.**

Often financial difficulties arise due to unexpected life events. While the strategy should be

commended for its objectives to provide support in these situations and knowledge of where to seek help, it lacks emphasis on financial resilience. In CAP's experience, people in financial difficulties do not always lack financial capability. Many CAP clients had been managing their money well and preparing for life ahead, yet they lacked financial resilience to deal with income shocks. Although this is mentioned in the financially capable behaviour domains, greater emphasis should be given to encourage saving as a key objective.

#### **Saving is an important objective for all income levels.**

There are several references throughout the draft strategy to improving a person's 'wellbeing position as much as their means and pressures allow'. Whilst, the ability to save is constrained by a person's financial means, it is important that the strategy is not overcautious about encouraging those on low incomes to save. The average income of a CAP client is £12,840, yet savings are still built into the majority of the budgets created for clients, even if this is just £10 or £20 a month. It is this low income group that are most vulnerable to unexpected expenditure and therefore it is essential there is strong encouragement for this group, in particular, to have savings despite their low means.

## **4. What is your view of the financially capable behaviour domains?**

#### **The behaviour domains are helpful to visualise the anticipated outcomes of the strategy.**

The four domains presented capture the large breadth of behaviours that are facilitated by financial capability. This is helpful to consider the potential outcomes of the strategy and the actions needed to get there.

#### **The four domains are sufficient and are very comprehensive, but do miss some elements.**

There are no other behaviour domains that are evident with strong financial capability that need to be included. However, whilst the domains are all extremely comprehensive, there are a couple of elements that are missing. Firstly, in 'managing money well day to day' there is no mention of reducing expenditure. The CAP Money Course encourages delegates to consider not only how to maximise their income, as mentioned in this domain, but also how to minimise expenditure to balance their budget. This can be done by cutting costs – doing it cheaper; cutting back – doing it less; or cutting out – not doing it. This element of money management should be included in the domains. Not everyone is able to increase their income, but everyone can reduce their expenditure, for example by switching energy provider or making packed lunches. Secondly, financially capable behaviour also includes using credit responsibly without getting into debt problems. Therefore, the domain 'tackle problem debt' should also include providing education on the appropriate use of credit, and information on alternative products to high-cost, short-term credit in particular. CAP encourages clients to live without the use of credit, and 96% of those who become debt free through CAP's service remain debt free. This demonstrates that debt is not inevitable, even for those on low income, and therefore part of tackling debt problems should be discouraging the use of credit altogether.

"After the CAP Money Course we now have a greater understanding of our spending on little things, like cups of coffee, sweets, etc."

"I think more about how, and what, I am spending. Do I need this or do I simply want it? If it's the latter, I don't by it – real progress for me!"

## 5. How important is it to measure the impact of the Financial Capability Strategy?

### **Measuring the strategy's impact is desirable.**

CAP welcomes the dedication to evaluation and measurement within the strategy. Measuring the impact of the strategy will be important to determine which actions are successful and identify gaps in targeting the factors of the framework. Ensuring the available resources are allocated as wisely as possible and to the biggest effect is beneficial to maximise the potential of the strategy, but caution should be taken to ensure where evidence is not available it is not just assumed that there are no desirable outcomes happening.

### **The 'wellbeing staircase' model presented in the draft strategy is too simplistic.**

In CAP's experience, a person's financial situation is more fluid than this model suggests. For example, people may be financially resilient in the longer-term but not the short-term, making private pension contributions but not having savings for unexpected everyday expenditures, such as their boiler breaking. Furthermore, it is common for some CAP clients to act in a financially inconsistent way and have significant savings as well as outstanding debts. In addition to this, some end up on the bottom step with 'unhealthy debt problems' not due to financial incapability, but due to unexpected circumstances, such as ill health. One client for example, worked in the financial industry and managed their finances well before falling ill. They were unable to inform their mortgage company why they'd missed payments, and the resulting debt problems were not due to lack of knowledge or lacking financial resilience, but being physically unable to manage their finances at that time. Therefore, not only may it be difficult to measure where a person is on the staircase, as they may exhibit attributes assigned to several steps simultaneously, but also because their situation may not reflect their level of financial capability but their current circumstances.

### **Consideration also needs to be given to the macro-economic climate.**

Furthermore, the aggregate statistic quoted in the draft strategy of the number 'struggling' with their finances before and after the 2008 recession shows the additional measurement challenges brought by the macro-economic climate. It is not accurate to assume a larger number 'struggling' reflects worsened financial capability. An economic downturn pushes those who are financially insecure over the edge into noticeable financial difficulties. Attention needs to be given to how the macro-economic climate may skew measurement of the impacts of the strategy.

## 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?

### **It is great that the strategy is prioritising particularly vulnerable groups.**

These are groups for whom the strategy will have more significant impacts. The other main group that would remarkably benefit from increased financial capability is ex-offenders. The CAP Money Course has been run by CAP volunteers in prisons. We would encourage the strategy to expand on this, including financial capability in rehabilitation programmes. Additionally, the strategy should perhaps also consider groups, such as Universal Credit claimants, who experience transitional changes that present particular short-term challenges. In this instance, improving financial capability in the transitional period, by

helping claimants unused to receiving monthly income would make a significant difference to their financial wellbeing.

**Nevertheless, financial education should be provided for all.**

While particularly poor financial capability is concentrated amongst certain groups, everyone can benefit from increased financial capability. With 61% of people reporting they feel financially unsecure, the UK's financial wellbeing will be increased most significantly the wider the reach of the strategy. The CAP Money Course is attended by delegates of all income and age groups. Even those who appear most financially secure benefit from the course, as demonstrated from the quote below.

"I was always quite good with money. The CAP Money Course taught me vital skills. I now understand the best ways to spend weekly cash. I have learnt better ways to save, I'm free from having to feel stressed about upcoming events like birthdays, Christmas and holidays."

## 7. How far do you support the Strategy's aims for children and young people?

**CAP completely supports improving the financial capability of children and young people.**

It is well known that child poverty has long lasting effects. Poor children often become poor adults, repeating the behaviour patterns they learnt as children. This is demonstrated by the quote below. Equipping children and young people to make financially capable choices will not only equip children of all backgrounds for once they reach financial independence, but also help break this cycle of deprivation. CAP believes this priority group are set to benefit most significantly from the strategy, preparing them to manage money well throughout the rest of their lives.

"Ever since I was a little girl we had debts; my mum used to send me to the door to tell the rent collectors that they weren't in. As a teenager I stole food so my brothers and sisters could have a meal. Life got worse and worse, people abused me for money and I resorted to crime and prostitution to make ends meet. When I called CAP for help I was seriously depressed and suicidal. I hadn't been out of the house for 15 months and I was reliant on alcohol to numb the pain. I had been trying to pay off my debts for years without success."

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

**Despite the strong aims of the strategy, the actions proposed could be improved.**

The strategy is heavily reliant on financial education being provided by parents and carers, despite acknowledging that families rarely talk openly about money. This not only relies on motivating parents and carers to talk about money issues with their children, but also that they have high levels of financial capability themselves. There is little provision in the strategy to increase financial capability for the adult population as a whole. Additionally, it is

important to consider that even with this support, some home situations are too chaotic to provide a good example of money management.

**Financial education should be provided in schools.**

The potential benefits of increasing children's financial capability are so significant, that to presume parents and carers are teaching their children at home is inadequate. Therefore, provision should be standardised and provided in schools. In the past, the finance industry has been prominent in providing this, but these courses have been focused on financial products rather than financial education, such as budgeting skills. CAP would encourage financial education to be provided by third parties without a vested interest in the use of particular financial products. CAP recently launched CAP Money Kids and CAP Money Youth. These courses are run in schools or youth groups to teach basic budgeting skills, teaching children how to manage money and introducing them to the concepts of financial security and resilience. So far 92 CAP Money Kids and 346 CAP Money Youth course training resources are being used by our volunteers.

**9. How far do you support the Strategy's aims in respect to preparing for later life?**

**The strategy's aims for preparing for later life fills a large gap in financial advice.**

It is important people are preparing for retirement, as due to the fixed nature of their income, poverty is especially widespread amongst older people. There have been several policy changes recently that have taken steps to tackle the prevailing short-sightedness in people's financial decision making. However, aiming to empower people to make key financial decisions successfully complements these. CAP is pleased the strategy is seeking to help people make adequate plans, rather than sticking to default arrangements in provision.

**10. What is your view of the recommendations for action relating to preparing for later life? How could they be improved?**

**The strategy should go further, and advise people how much to save for retirement.**

The recommended actions provide a good range of programmes that will equip people to be encouraged and able to save for retirement. While motivation is important, there is also a major knowledge gap that needs to be overcome. It would be more useful to go beyond the proposed actions and provide advice on the best way to prepare for later life. Choosing the right pension and amount to invest requires specialist knowledge. It would be good if specialist advice could be provided as part of the strategy to bridge this knowledge gap early in people's working lives to allow them to be sure they're adequately saving for a financially secure retirement.

**11. How far do you support the Strategy's aims for older people?**

**Financial wellbeing is important for all ages.**

Older people often have specific issues that restrict their financial capability. 6.05% of CAP clients are over 65, and this age group has the highest average debt level when starting with CAP. CAP welcomes the strategy's aims to address the particular physical and cognitive barriers faced by older people.



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

### **CAP welcomes action on specific challenges to older people's financial capability.**

The strategy for older people addresses many of the key challenges specific to this generation. Many of the actions will be invaluable to older people facing specific age-related challenges, such as cognitive impairment. However, it is important not to view the basic financial capability issues in this group as distinct to the rest of the population. While, pensioners are on a fixed income, the skills required to balance a budget are the same, and late take-up of debt advice is not exclusive to this particular group. Much of the specific support needed is an extension of the actions that should be offered to all. For example, while the required money management skills are consistent with the general adult population, older people may require particular support to access online services. CAP offers financial education courses through local churches, and although these use an online budgeting tool, coaches are able to give one-to-one support to those who need help accessing this. This facilitates older people to interact with people of all ages from the wider community, benefiting them by reducing potential social isolation. In addition to this, there is a specific section of the course on maximising income tailored for retired delegates, encouraging them to check they're receiving all the benefits they're entitled to.

## 13. How far do you support the Strategy's aims for people with financial difficulties?

### **CAP fully supports the strategy's aims of prevention and support for the over-indebted.**

The Money Advice Service's recent report '*Indebted lives*', established 18% of the UK's adult population is over-indebted. As a whole, the strategy will do much to help people avoid this situation, but CAP welcomes its specific aim to reduce the number of people who become over-indebted. Prevention is key to ensuring less people suffer the damaging impacts of unmanageable debt.

### **The right advice and support for those already over-indebted is also vital.**

In 2013, CAP received 25,302 initial calls from those in financial difficulty, with a total of 11,996 clients receiving full debt management support. As previously mentioned, even with high levels of financial capability, over-indebtedness will continue to exist. Therefore, it is essential that there is ongoing provision of support services for those in financial difficulties. CAP also welcomes the strategy's aims to provide debt relief quickly. 62% of CAP clients waited over a year before seeking help with their debts, often due to not knowing help was available. It is clear more can be done to increase knowledge and uptake of existing support.

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

### **The debt advice sector provides a fantastic range of debt help, but more capacity is need.**

There are already many debt management organisations providing excellent services to those in financial difficulties. Nevertheless, if the strategy meets the aim of encouraging more people to seek help, extra capacity needs to be created. It is essential that a variety of support services exist to provide the most appropriate debt solution to each individual. In particular, CAP would advocate the creation of more face-to-face service capacity. Although,



this is the most resource intensive, research suggests people feel most comfortable discussing their finances in person, and such services are most effective for those with the most severe financial difficulties.

**Creditors are uniquely positioned and key to supporting those in financial difficulty.**

The ability to spot the early signs of financial difficulties and being in communication with the majority of those in debt mean creditors are key to the early signposting of debtors to debt help. CAP would like to commend the progress the credit industry has made in recent years to support those in financial difficulty and the commitment of many companies to work with debt management organisations. The strategy should acknowledge and expand existing best practices across the industry. CAP agrees it would benefit debtors for these practises to also be encouraged amongst utility companies, particularly telecommunications companies, and the public sector.

**Financial education is central to the long-term effectiveness of debt help.**

Organisations working with those in financial difficulty have the opportunity to significantly impact the financial capability of their clients. People who have sought help with their finances are often most inclined to change their financial behaviours, having suffered the negative consequences of their actions. Consequently, debt help can easily increase their immediate financial wellbeing and also their ability to maintain this for the longer-term. CAP provides a financial education course specifically for clients, and works with people until they're debt free. This on-going support requires clients to live on a budget for a sustained period and clients are encouraged to save through their CAP Plan. Additionally, comprehensive support is provided by our local agents to tackle any other wider barriers client may have to financial wellbeing. This encourages clients to develop financial resilience and equips them with skills to safeguard their financial wellbeing. As a result, 96% of CAP clients who become debt free through our service remain debt free. CAP would encourage the Money Advice Service to make such actions central to the debt help it provides.

**15. How far do you support the Strategy's aims in relation to the ease and accessibility of products and services?**

**These aims will support many of the strategy's other aims.**

Increased accessibility to financial support and advice, will contribute to areas such as preparing for later life and supporting those in financial difficulties. In addition to these aims, the strategy's specific aim to make the consequences of consumer's decisions clearer should be praised particularly.

**Responsible lending should be prioritised over accessibility to credit.**

However, it is concerning the strategy suggests increasing the accessibility of credit for those with poor credit records and variable incomes. While it is important those requiring credit are aware of the most appropriate type and the costs involved, accessibility should be restricted where lending would be irresponsible. Affordability checks are in consumer's interests, protecting them from taking out debts they would not be able to repay. Predominately budgeting should be used as a tool to avoid the need for credit.

"After doing the CAP Money Course I realised that we were struggling to make ends meet because my husband gets variable wages. We have now started saving, putting regular, small amounts aside ready for the months when my husband's work is slack."

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

### **CAP supports taking action to help people understand the consequences of their choices.**

Making informed choices is an essential part of financial capability. It is good the strategy plans to do this by not only encouraging people to consider their choices carefully, but also making it easy for them to do so. APR is often confusing to customers and does not represent the true cost of credit, particularly for short-term products. Additionally, upfront information on the consequences of missing payments is very welcome.

### **There is little awareness of financial advice services.**

Accessibility of advice services has improved greatly in recent years, with online and telephone based services allowing large numbers to access advice. It has been encouraging to see the Money Advice Service's television advertisements, but knowledge of the availability of advice is still low. It is common for client's to report they didn't know anyone could help them with their debts before hearing about CAP. With widespread media promotion of credit products, such as payday loans and consolidation loans, CAP would encourage the strategy to use prominent advertisements to promote debt management and financial education services so consumers are aware of all their options. Creditors also have a key part to play in this, as recognised in the strategy. Creditors have direct communication with those in financial difficulty, and therefore have the ability to do the most far-reaching signposting. CAP is greatly encouraged by the number of creditors that do proactively promote free advice services, and would encourage the strategy to urge more to do so.

### **Accessibility goes beyond reaching large numbers of people.**

In CAP's experience, when clients approach us for debt help they are completely overwhelmed by the financial situation and have been unable to get on top of it themselves. It is good the strategy aims to take action to provide appropriate independent advice, but CAP would encourage the Money Advice Service to ensure this includes sufficient intensive support services, especially for the most severely indebted and most vulnerable.

## 17. How far do you support the Strategy's aims in relation to influencing social norms?

### **Social norms are a powerful influence on actions, but can be overcome.**

It is great the strategy is aiming to engage with the social context in which financial decisions are made. Understanding this context will enable social norms that are at odds with any of the strategy's aims to be counteracted. Whilst people are surrounded by messages encouraging them to spend and borrow, the strategy should be encouraged that CAP has succeeded in promoting countercultural messages with many of its clients.

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

### **People are open to change if they understand the reasons and benefits to them.**

While people may be more susceptible to changing their behaviour patterns at key life events, CAP finds people are willing to make changes once they understand there is a problem and understand the benefits to them of doing things differently. For instance, CAP has been largely successful in encouraging clients to save for, and stay within their means for, their Christmas shopping. In addition, CAP has also been effective in promoting the use of cash in a increasingly card-based society. In fact, the use of cash is a key principle taught on the CAP Money Course and on average 53% of delegates live on cash after attending the course. The key is empowering people through financial education so they fully understand and consider the consequences of their actions, and then continue to make informed decisions.

## 19. How far do you support the Strategy's aims relating to evidence and evaluation?

Using evidence to measure the positive impacts and cost effectiveness of programmes is important, as discussed in the response to question five.

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

### **Evaluation and impact assessments will not be possible for all programmes.**

CAP conducts internal evaluations of the debt management services provided. However, it is more difficult to conduct an impact evaluation of the CAP Money Course, as this involves a one-off contact with a delegate with impacts over the longer-term. Therefore, apart from initial delegate satisfaction surveys, little evaluation has been done. In light of this, the strategy should be cautious about purely directing funding where programmes have been proven to work, as for some beneficial programmes this will not be possible.

## 21. How would your organisation like to be involved in further development of the Strategy?

As an organisation, CAP is passionate about lifting people out of debt and poverty. To do this, a key part of the services offered are aimed at increasing financial wellbeing and capability. This strategy has massive potential to impact thousands of lives across the UK, and bring real change to the financial situations of many of the most vulnerable. It is hoped the knowledge CAP can contribute to the strategy from many years experience working in the financial education and debt management industry will offer a valuable insight. As a result, CAP is eager to contribute to the further development of the strategy as needed, whether through further consultation or information on the progress CAP services are already making in this area.

## **22. What role do you see your organisation playing in the implementation of the Strategy?**

CAP is actively working to increase financial capability across the UK. Sharing many aims with the strategy, and as a provider of debt help and financial education courses, CAP is already involved in delivering many of the actions proposed in the strategy. Over the specified time-period, CAP aims to expand provision of high quality debt management and empower more local churches to run financial education courses in their communities. CAP's model is resource intensive, offering a face-to-face service and wider support to clients. Therefore, CAP's role is very much as part of a mixed landscape of providers. Additionally, CAP is also focusing on tackling the wider causes of poverty and financial difficulty. People have complex lives, and debt is rarely a singular problem. To address this, CAP is also running 101 CAP Job Clubs and piloting 21 CAP Release Groups, to help those with dependencies.

### Requests for further information

This response has been produced by Rachel Gregory, External Relations Analyst for Christians Against Poverty, with contributions from Daniel Furlong, National Grants Manager.

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**Lifting people out of debt and poverty**