



### FINANCIAL CAPABILITY STRATEGY FOR THE UK

ICAEW welcomes the opportunity to comment on the consultation paper *Financial Capability Strategy for the UK: the draft strategy* published by The Money Advice Service on 15 September 2014, a copy of which is available from this [link](#).

This response of 24 October 2014 has been prepared on behalf of ICAEW by the Financial Capability Team, with input from the Financial Services Faculty.

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## MAJOR POINTS

### Support for the initiative

1. We support the Money Advice Service in their articulation of a financial capability strategy for the UK. ICAEW is committed to helping individuals develop their ability and confidence to make informed decisions about personal finances and see a clear role for our extensive membership in helping to facilitate the successful execution of the strategy.

## RESPONSES TO SPECIFIC QUESTIONS

### Q1: What time period should the Financial Capability Strategy cover?

2. The articulation of the strategy comes at a time of changing public policies and continuing uncertainty in the economic environment. These factors present significant challenges for individuals making decisions about how to use or save their money within this context. Outputs need to be measured on a regular basis to ensure that the strategy is still fit for purpose. This should guide the time period rather than fixing a set date. The strategic agenda needs to focus on areas that pose the most immediate risk of consumer detriment.

### Q2: What is your view of the Financial Capability Framework?

3. We agree that attitudes and motivation are key constituents of financial capability and support the recommendations that children from the age of 3 should receive personal finance education – both through school and through their support networks (family, carers, and community groups).
4. The strategy should include a stronger emphasis on the need to change people's relationship with and attitudes to money, with the overall aim of moving towards a 'nation of savers'. We feel that currently there isn't a broad understanding of the incremental value of saving and the ethos that even small amounts do add up. There is also the need to encourage people to start saving from a younger age. Historic low periods of interest offered by banks, as well as a lack of diversity amongst savings products have contributed to this lack of saving. There also needs to be more emphasis on the need to make provision for unforeseeable life events, including long-term sickness and the importance of simply having access to a rainy day fund.
5. The strategy should seek to remove the taboo of talking about money, and encourage open and honest discussion about financial circumstances. This will empower individuals to change their behaviour and encourage more informed decision making and the feeling of increased support.

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

6. We agree with the objectives of the strategy, but feel a more holistic 'cradle to grave' approach which reflects key life stages rather than the priorities for action (p17) which omits key stages, would be more effective to achieve these objectives.
7. For example, with regard to working age people who are preparing for later life, a broader understanding of this group is needed, and should include;
  - the transition from education to employment,
  - general management of day to day budgets (budgeting for the first time),
  - getting married or entering into joint financial relationships,
  - buying a house,
  - having children,
  - personal and family protection policies,
  - saving for retirement.

8. To become a practical series of activities which are deliverable and objectively measurable, we recommend the strategy be expanded to include:

- The liberalisation of access to pension pots, as announced earlier in the year by the Coalition Government also needs to be given a much stronger emphasis in the strategy.
- Clarification of who (both individuals and organisations) is responsible for delivery of the strategy.
- The role of employers and the trade unions that must be engaged to help communicate with and support employees at all stages of their working lives – not just when planning for later life.
- The introduction of universal credit and the impact of universal credit needs to be considered in the strategy. Clarity is also needed as to which organisations are responsible for supporting people who will receive this credit – local authorities, housing associations, DWP.
- Money terminology – consistent vocabulary should be defined and used by anyone who is talking about financial capability, for example:
  - Clearly understood definitions of advice versus guidance or financial literacy versus financial capability.
  - The terms used in the financial wellbeing staircase (page 13) need to be more clearly defined, for example ‘resilience’ is capable of wide interpretation.
  - Regional variations in average salaries should be taken into account to ensure the strategy does not appear less relevant in certain areas of the country. (For further discussion see our response to question 5.)
  - Guidance for parents/carers to promote positive money language such as ‘look after the pennies and the pounds will look after you’ (and avoidance of negative money language) should be introduced to facilitate reinforcement of the strategy outside of schools and public bodies. Initiatives in schools – such as providing piggy banks are a positive first step to encouraging a savings culture.

**Q4: What is your view of the financially capable behaviour domains?**

9. These domains appear to cover key life stages more fully than those represented by the priorities for action groups. Please refer for our points made in response to question 3.

**Q5: How important is it to measure financial wellbeing to help measure the impact of the Financial Capability Strategy?**

10. It is important to measure financial wellbeing, but we believe this must be done as a relative measure, as opposed to simply at a point in time in order to demonstrate improvement (or otherwise). Self-reported evidence can be less accurate than other objective sources, and other measures will need to be taken into consideration to gain a holistic view. There is a large amount of data which could be a proxy for financial wellbeing of the population as whole, for example credit cards carrying a balance, overall levels of consumer debt (excluding mortgages) and statistics around people entering individual voluntary agreements or similar.

11. With regard to ‘the financial wellbeing staircase’ we note the following:

- In order to have a strategy that can be widely understood, and facilitate coordinated and complementary efforts from a variety of organisations it will be important to clearly and simply define what is meant by the key terms, for example 'resilience' and 'susceptible to financial shocks'.
- We doubt that people will assess their own financial situation honestly and accurately in the first instance. The optimism bias suggests that people may report they are in a better financial position than they actually are.
- The definition for each level of the staircase will need to be clearly articulated, otherwise people may base their position purely on their income rather than their emergency funds, savings and other assets, for example their house.
- It needs to be recognised that people will move between levels of the staircase as their situations change over time.
- Regional variations relating to income, rent costs, price of houses and other variables will need to be taken into account.

**Q6: 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?**

12. Please see response to question 3 in addition to the following points.
13. The priorities for action seem to have a baby boomer bias – for example, saving for the 'here and now' is not considered, the transition from education to work or consideration for the aging population and the consequences of this such as paying for elderly parents' long-term care.
14. The ease and accessibility of financial products and services should be more broadly considered and include the importance of using financial products such as home insurance, basic bank accounts or 'jam jar' accounts.

**Q7: How far do you support the Strategy's aim for children and young people?**

15. The aim for children and young people should be expanded. The UK has a culture of spending rather than saving and there is a need to change young people's attitude to money. This is no small task as saving is not seen as a 'good thing' by any generation. Similarly money is seen by the majority as a taboo subject and young people's support networks need to be encouraged to talk openly about money with them.
16. We support the recommendation made at the London consultation event that the strategy acknowledges the inclusion of financial education in the curriculum for the first time as only the tip of the iceberg rather than an excellent leap forward.

**Q8: What is your view of the recommendations for action relating to children and young people? How could they be improved?**

17. Government at their recent party conference appeared to believe that now financial education is included in the curriculum for maintained secondary schools that it's 'job done'. This is far from the case. A financial capability strategy needs endorsement from all the main parties. Additional action is needed and the strategy must:

- Support teachers (with training and funding) to ensure the delivery of consistent, high quality financial education for all young people.
- Recognise that it's not just teachers who speak to young people about money. Parents, carers and community workers for example also need support (training and funding) to facilitate effective and meaningful engagement.
- Articulate clear criteria to evaluate the correct (quality) delivery of financial education and an explicit understanding of who/what should be responsible for doing this.
- Make financial education available for all young people – regardless of the type of school they attend (ie not just maintained secondary schools) and also away from schools for those young people outside the traditional education system.
- Engage parents and friends to encourage them to talk (constructively) about money with young people and remove the stigma that money is a taboo subject.
- Teach children from as young as 3 about money and expand financial education to the primary school curriculum.
- Support the transition from school to higher education or working life. Transition to adulthood, changing pattern of starting work e.g. apprenticeships, the decisions and consequences around student debt (another example of where terminology should be looked at – it should be described as an investment rather than a debt).

**18.** In response to the *recommendations for action point 3 'opportunities for children and young people to manage their own money'*, we recommend this is broadened to consider how to make these opportunities accessible for all young people. For example, at present it's very complicated to establish how to open a bank account for young people in care.

**Q9: How far do you support the Strategy's aim in respect of preparing for later life?**

- 19.** We broadly agree, but note that although auto-enrolment has encouraged new saving, this will not reach the requisite level for some time and there is still a lot of work needed to ensure that people save enough and are encouraged to save more.
- 20.** At the public policy level far more emphasis is still needed to address the savings gap given the substantial implications that this has at every level. To make any real progress the pensions and savings landscape needs a sustained period of stability, free of perpetual regulatory change and uncertainty. The Strategy needs to articulate the need for simplicity and stability in context of the practical realities of achieving its broader public policy goals.
- 21.** There are currently a large number of misaligned incentives for saving, for example, individuals may not receive government funded care or unemployed benefits if they have savings, which acts as a disincentive to maintain savings in certain circumstances. .
- 22.** Understanding and control of financial circumstances should be an aim for all individuals. Without the confidence to make informed decisions about their own financial position, individuals become vulnerable if they are reliant on someone else to manage this for them. If their circumstances change (divorce, bereavement, ill health) they can be left with a difficult financial situation and a lack of confidence and knowledge (both of finances generally, and their own circumstances) to manage effectively and avoid financial stress.

**Q10: What is your view of the recommendations for action relating to preparing for later life? How could they be improved?**

23. We broadly agree with the recommendations, but as previously discussed, feel that the strategy should not seek to over-rely on auto-enrolment.

**Q11: How far do you support the Strategy's aims for older people?**

24. The strategy needs to consider the growing issues associated with an ageing population including long-term care and cognitive impairment more fully.

**Q12: What is your view of the recommendations for action relating to older people? How could they be improved?**

25. Increasing confidence to talk about money and to address financial situations will empower people to talk to their parents and family, for example about power of attorney, before ill health arises. This type of pre-planning relieves a considerable amount of pressure during emotional periods of time. This can also facilitate preparation for later life as people may be encouraged to put power of attorney in place so that their children or relatives do not have to encounter a similarly difficult situation. ICAEW has recently become an approved regulator for probate services.
26. With regard to products and services being easy to use and accessible for older people we recommend that this is extended to include the need for impartial and regulated advice, so that older people, who may be particularly vulnerable are not at risk of scams or steered towards buying products unsuited to their financial circumstances or that do not deliver good value.

**Q13: How far do you support the Strategy's aims for people with financial difficulties?**

27. We agree with the strategy's aims for people with financial difficulties, and acknowledge the use of the word 'over-indebted' to convey that it is unrealistic to expect everyone to be debt free, and nor is debt always negative in and of itself.

**Q14: What is your view of the recommendations for action relating to people with financial difficulties? How could they be improved?**

28. The role of financial regulators such as the Financial Conduct Authority (FCA) and the Financial Ombudsman should also be considered as part of the strategy. Consumers are increasingly aware of mis-selling and the role that financial institutions and regulators play in wider societal financial wellbeing. Collective understanding and action can drive product providers such as banks and insurance companies to be more transparent, and regulatory intervention to ensure that firms treat customers fairly is expected to be increasingly used by the FCA. The role of consumer groups and services like Which? and Money Saving Expert should also be considered.

**Q15: How far do you support the Strategy's aims in relation to the ease and accessibility of products and services?**

29. We agree, but feel that the articulation of what are 'appropriate' products will be challenging on a grand scale, not in least due to the availability of advice and advisors, especially to those with modest financial means.

**Q16: What is your view of the recommendations for action relating to the ease and accessibility of financial services? How could they be improved?**

30. We agree with the recommendations for action, but note that ease of access can be problematic in and of itself, and should not be confused with the facilitation of fairer and more

equitable access to financial services and products. We believe the strategy should focus on facilitating informed comparison, which will enable consumers to make decisions more easily. The difference between 'guidance' and 'advice' is not currently understood clearly, either by consumers or Government, and one of the actions arising from the strategy should be to clarify this in a way which consumers can understand, to avoid potentially large scale problems in future.

**Q17: How far do you support the Strategy's aims in relation to influencing social norms?**

31. As noted throughout, we believe one of the most valuable outcomes from the Strategy could be to change attitudes to money and to encourage people to talk more openly about money and personal financial circumstances.

**Q18: What is your view of the recommendations for action relating to influencing social norms? How could they be improved?**

32. Please refer to points made earlier in our response

**Q19: How far do you support the Strategy's aims relating to evidence and evaluation?**

33. ICAEW supports the recommendation that the focus should move from reporting activities to measuring outcomes.

**Q20: What is your view of the recommendations for action relating to evidence and evaluation? How could they be improved?**

34. We agree with the recommendations for action as articulated.

**Q21: How would your organisation like to be involved in further development of the Strategy?**

35. ICAEW works in the public interest across many areas of this strategy. We would be very pleased to further input into the development of this strategy and would be available to meet with you to discuss any points raised in this response in further detail.

**Q22: What role do you see your organisation playing in the implementation of the Strategy?**

36. ICAEW works to help people develop their ability and confidence to make informed decisions about personal finances. In partnership with pfeg (Personal Finance Education Group), ICAEW Chartered Accountants and ACA students are already working closely with schools and community groups to engage and deliver financial education sessions to young people. They are able to share their expertise and provide a real life context to learning about money. In the past few years, ICAEW Chartered Accountants and ACA students have helped thousands of young people develop their understanding of how to manage money. The strategy calls for schools to promote experiential learning opportunities and ICAEW Chartered Accountants will continue to deliver these sessions as experiential learning opportunities for young people  
**[icaew.com/personalfinance](http://icaew.com/personalfinance)**
37. In addition, ICAEW engages with schools, colleges and universities in a variety of ways.  
37.1. Our national Business and Accounting competition (BASE) is open to students in school or college aged 16-19. A unique and exciting experience, students are able to engage in a business challenge that enables them to develop key employability skills  
**[icaew.com/BASE](http://icaew.com/BASE)**.



37.2. ICAEW is committed to working with academic staff and careers advisers to give relevant and practical advice to students. Our interactive business games and skills sessions are designed to build, develop and challenge student's employability and business skills.

38. ICAEW has also launched a set of personal finance tools which includes guidance on a range of personal finance topics from managing debt to funding a university course. These are openly available for anyone to access via our careers website **[icaew.com/personalfinanceresources](http://icaew.com/personalfinanceresources)** and are promoted widely by our Student Recruitment Team that works closely with schools and universities around the country.
39. In March 2014, ICAEW co-launched a new All Party Parliamentary Group for Maths and Numeracy with National Numeracy. It was launched in response to the findings of the OECD skills survey report which found that nearly half of the working-age population have the numeracy skills expected of children at primary school, this leaves the UK lagging significantly behind most other industrialised countries. The hope is to encourage people of all ages to understand how and why maths and numeracy can help them in not only their job but also to provide skills for life.
40. Ahead of the 2015 general election, ICAEW has produced a manifesto that identifies what we see as the biggest priorities for the next government to consider. By drawing on the insights and experiences of our 142,000 members, we have set out ideas on how to address these priorities. Skills and social mobility is one of four headline themes of the manifesto. Although rising employment is a welcome sign that we are in the early stages of economic recovery, there is a chance that businesses might not be able to capitalise on the upturn because of a growing skills gap. ICAEW members indicate there is already a skills shortage in construction, IT and transport. In our manifesto we urge government to make work experience mandatory in schools and keep promoting alternative route into the professions **[icaew.com/manifesto2015](http://icaew.com/manifesto2015)**
41. To support this, ICAEW is leading on Access Accountancy – a profession-wide initiative to provide work experience to school and college students from disadvantaged backgrounds **[accessaccountancy.org](http://accessaccountancy.org)**