Association of APFA Professional Financial Advisers

APFA RESPONSE

MONEY ADVICE SERVICE CONSULTATION
FINANCIAL CAPABILITY STRATEGY FOR THE UK

ABOUT APFA

The Association of Professional Financial Advisers (APFA) is the representative body for the financial adviser profession. There are approximately 14,000 adviser firms employing 81,000 people. 40% of investment and protection products are sold through financial advisers, with annual revenue estimated at £3.8 billion (£2.2 billion from investment business, £1.2 billion from general insurance and £400 million from mortgages). Over 50% of the population rank financial advisers as one of their top three most trusted sources of advice about money matters. As such, financial advisers represent a leading force in the maintenance of a competitive and dynamic retail financial services market.

APFA welcomes this opportunity to respond to the Money Advice Service's consultation on its draft Financial Capability Strategy for the UK.

APFA'S RESPONSE

SUMMARY

Overall we support the approach MAS is taking to developing the Financial Capability Strategy for the UK. However there are two particular issues we would highlight.

First, we are concerned that the strategy is too ambitious in its priorities. The list of groups that are considered a priority appears to encompass more or less the entire population of the UK, and therefore is in danger of becoming meaningless – not everyone and everything can be a priority. We would therefore suggest that some further prioritisation needs to take place, in order to ensure that the strategy is realistic in its ambitions.

Second, there must be robust processes in place to evaluate both the high level strategy and the underlying programmes. The effectiveness of the strategy needs to be monitored and reported on within the short term (i.e. the next 1 to 3 years), and at regular intervals thereafter, so that stakeholders can judge whether sufficient progress is being made and that value for money is being delivered. If too much time elapses before any public scrutiny is possible, a lot of time, effort and money could be wasted if the strategy is not delivering what is expected.

Our further comments, together with our responses to the detailed questions, are set out below.

RESPONSE TO DETAILED QUESTIONS

Q 1: What time period should the Financial Capability Strategy cover?

We do not have fixed views about the time period the strategy should cover. However it is important that it strikes a balance between being long enough to enable visible, measureable progress to be made, and short enough for stakeholders - particularly those funding the work underpinning the strategy - to see they are getting value for money. There must therefore be milestones built in so that progress is measured and reported on in the short (e.g. 1 to 3 years), medium (e.g. 4 to 6 years) and longer term (e.g. 7 to 10 years). Without such milestones it will be difficult to know whether the strategy is heading in the right direction, and to therefore adjust priorities, approach etc. if required and before too much time and effort has been wasted.

Q 2: What is your view of the Financial Capability Framework?
Q 3: How far do you agree with the objectives of the Financial Capability Strategy?
Q 4: What is your view of the financially capable behaviour domains?

In our view the framework, objectives and behaviour domains appear to be comprehensive and sensible.

Q 5: How important is it to measure financial wellbeing to help measure the impact of the Financial Capability Strategy?

We agree that the "financial wellbeing staircase" appears to be a good basis for measuring the overall impact of the strategy.

Q 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?

Whilst we agree that all the areas identified as priorities are indeed important, we are concerned that it is overly ambitious to try and address all of them within a reasonable timescale. After all, it could be argued that the groups identified cover the entire population one way or another. It may therefore be necessary to further prioritise, in order to arrive at a more realistic list.

Q 7: How far do you support the Strategy's aim for children and young people?
Q 8: What is your view of the recommendations for action relating to children and young people? How could they be improved?

Subject to our comments in response to question 6, we are supportive of the strategy's aim for children and young people, and the recommendations for action.

Q 9: How far do you support the Strategy's aim in respect of preparing for later life?
Q 10: What is your view of the recommendations for action relating to preparing for later life? How could they be improved?

Subject to our comments in response to question 6, we are generally supportive of the strategy's aim in respect of preparing for later life, and the related recommendations for action.

However in addition to the recommendations for action identified in the paper, further work should be done to promote the value of taking regulated financial advice to those who would benefit from it and for whom it would be cost effective.

Given the recent pension reforms, the decisions that consumers will need to take in the run up to retirement are becoming increasingly complex. Therefore, when supporting people who are approaching retirement, consumer advice organisations should be able to explain the reasons why it may be beneficial for a person to take regulated financial advice and they should be able to actively help and direct a person to a choice of regulated advisers (e.g. using the MAS adviser directory). This should also be aligned with the duty that local authorities have under the Care Act to provide local people with information about how to access independent financial advice (i.e. independent of the local authority) on matters relevant to the meeting of needs for care and support, including information about how people can access regulated financial advice.

We would also suggest that when informing consumers about their options around regulated advice, the approach taken in the current MAS booklet “Your pension; it’s time to choose” should not be used as a template. In our view the current wording turns far too quickly to what to do when things go wrong. Whilst we accept that mention needs to be made of the consumer protections, they do not belong in the second paragraph of the section dealing with regulated advisers. Furthermore, there is too much emphasis on regulatory definitions, such as the difference between independent and restricted, which is probably not a significant issue for most consumers, and is something that advisers will explain to potential customers in any event. It would be more helpful if MAS and other consumer advice organisations focused on helping consumers understand how to prepare for a discussion with an adviser, e.g. what they might expect an adviser to discuss with them at an initial meeting; collecting together all their financial information ahead of a meeting; the sort of questions they might want to ask; etc. For example, a standardised “fact find” document would be a useful tool to develop, which would help consumers prepare for and make best use of an initial meeting with an adviser.

We note that the section on ease and accessibility of financial products and services refers to “appropriate independent advice”. It is unclear if this is intended to be a reference to regulated financial advice – if it is not, then it should be amended so that regulated financial advice is specifically referred to. If it is intended to be a reference to regulated financial advice, then it would benefit from being more clearly stated. Further, it should not refer to <u>independent</u> financial advice, as this would exclude restricted advisers, many of whom may well be, for example, pension specialists.

Q 11: How far do you support the Strategy’s aims for older people?
Q 12: What is your view of the recommendations for action relating to older people? How could they be improved?

See our comments in response to questions 9 and 10, which apply equally to the strategy’s aims for older people and the related recommendations for action.

Q 13: How far do you support the Strategy’s aims for people with financial difficulties?
Q 14: What is your view of the recommendations for action relating to people with financial difficulties? How could they be improved?

We have no comments on these questions.

Q 15: How far do you support the Strategy’s aims in relation to the ease and accessibility of products and services?
Q 16: What is your view of the recommendations for action relating to the ease and accessibility of financial services? How could they be improved?

Subject to our comments in response to question 6, we are generally supportive of the strategy’s aim in relation to the ease and accessibility of products and services, and the related recommendations for action.

As noted above, this section refers to “appropriate independent advice”. It is unclear if this is intended to be a reference to regulated financial advice – if it is not, then it should be amended so that regulated financial advice is specifically referred to. If it is intended to be a reference to regulated financial advice, then it would benefit from being more clearly stated. Further, it should not refer to <u>independent</u> financial advice, as this would exclude restricted advisers, many of whom may well be, for example, pension specialists.

As stated in our response to questions 9 and 10, in addition to being able to drive awareness and highlight the benefits of regulated advice, consumer advice organisations should be able to actively help and direct a person to a choice of regulated advisers (e.g. using the MAS adviser directory). This should also be aligned with local authorities' duties under the Care Act.

Q 17: How far do you support the Strategy's aims in relation to influencing social norms?
Q 18: What is your view of the recommendations for action relating to influencing social norms? How could they be improved?

Whilst we support these aims and the recommendations for action, we are concerned that they are very ambitious. The ability of MAS and consumer advice organisations to in any way counteract the £17.9bn spent on advertising in the UK in 2013 (as quoted in the paper) is very limited. It is therefore important that MAS builds relationships with the industry and works more closely with firms, for example to embed its content and messages in their marketing, customer communications, websites etc.

Q 19: How far do you support the Strategy's aims relating to evidence and evaluation?
Q 20: What is your view of the recommendations for action relating to evidence and evaluation? How could they be improved?

In our view this is the most important element of the strategy. Without a robust method of evaluating interventions, it is impossible to judge what is working well and what is not, and therefore to decide how best the limited funding available should be allocated. A common method of evaluation enables different programmes to be compared and value for money and best practice to be identified and shared. We therefore support the aims and recommendations contained in the strategy, but with a number of provisos.

Firstly, it is important that the evaluation methods used focus on outcomes, not on counting inputs and outputs. Funders need to see that the money being spent is having a positive impact on behaviour, rather than just counting how many people visit a website or call a helpline.

Secondly, it is important that it is not only best practice that is shared - interventions that have not worked should also be identified and shared, to avoid the same "mistakes" being duplicated or replicated in other programmes. Whilst we appreciate it is not always easy to publically "own up" when things do not work, given funding is limited it is important that lessons are learned and shared so that improvements can be made and best use is made of what funding is available.

Thirdly, whilst we welcome the commitment in the paper to publish monitoring activity, we are concerned that the Financial Capability Strategy website (section on monitoring progress) suggests that the first progress updates will not be published until 2020. Given that MAS has been operational (in one form or another) since 2010, and has yet to demonstrate that the money it has spent over this time has changed behaviour, we do not believe the industry should have to wait another 5 years before it begins to see evidence of the impact MAS is having. We therefore suggest that insofar as this strand of work relates to the evaluation of MAS itself, it needs to be prioritised as a matter of urgency so that in 2015/16 the industry, and parliament, can begin to see whether MAS is changing consumer behaviour and delivering value for money.

We also believe more generally that 2020 is too long to wait for the first progress report. Those currently responsible for the strategy may well have moved on by the time 2020 arrives, and therefore it will be too easy to avoid taking personal responsibility for any shortcomings in its delivery. MAS should therefore commit to reporting annually on how the strategy is progressing, as well as on the initial outcomes from the evaluation of the underlying programmes. A number of individual programmes, like MAS, will have been operational for some time and therefore data may already exist which can give an initial indication of their success, or otherwise, and this should be published at the earliest opportunity.

Q 21: How would your organisation like to be involved in further development of the Strategy?
Q 22: What role do you see your organisation playing in the implementation of the Strategy?

APFA is happy to continue engaging with MAS through its current channels as the strategy develops.

APFA
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