

Review of the Money Advice Service – Call for Evidence¹

Response from the FCA's Smaller Business Practitioner Panel

General points

Accountability

The Panel strongly agrees with the Review's statement that 'being fully accountable for its actions helps strengthen an organisation's legitimacy' and that this is an area where there is scope for the Money Advice Service (MAS) to do better.

Our view is that the Panel believes MAS should not only be accountable to the public, but to the industry which funds it. The Service's business plan and budget for the year ahead are subject to approval by the FCA and there is a requirement to consult with the statutory Panels, including the Smaller Business Panel, on the annual business plan. But other than this, MAS is not directly accountable to the industry, and there is therefore a mismatch between the source of the funds and the achievement of its objectives.

We suggest that the budget and business plan should be approved by a Panel of appropriate industry representatives from firms which are subject to the regulatory levy in order to increase the accountability of MAS to the industry. MAS should also be required to report back to this Panel on the achievement of its objectives.

Scope and remit

The Panel believes that a prerequisite of consumers taking responsibility for their actions is that they are educated about financial services and can see the context in which they are taking their decisions. It is generally supportive of the statutory objectives of the Money Advice Service (MAS) to:

- enhance the understanding and knowledge of members of the public of financial matters (including the UK financial system); and
- enhance the ability of members of the public to manage their own financial affairs². At the time of the Financial Services Act 2010 the organisation now known as MAS was known as the Consumer Financial Education Body, and the Panel believes this name much better describes its remit and the scope of the work it should be targeting.

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/326288/independent_review_of_the_money_advice_service_final_020714.pdf

² In the Financial Services Act 2010 (at which point MAS was referred to as the Consumer Financial Education Body).

We believe that MAS could do good work, for example, in consumer education, for example at secondary, and even primary, school level. The provision of information in schools is a good initiative, but it could be done better by professional advisers. Involving such advisers, rather than relying on teachers, should be investigated further.

Difficulties arise when considering the difference between regulated and non-regulated advice on a heavily-regulated product set. But the Panel has concerns that without access to proper advice as required consumers will commit to something they do not understand. The biggest financial transactions consumers make, such as mortgage purchase or decumulation at retirement, should be advised. The existing regulation was developed to protect the consumer.

Working with other bodies to provide debt advice is a different issue and more appropriate.

Effectiveness

The Panel has concerns about both the effectiveness of the organisation and the clarity of its scope, success measures and outcomes. We have spoken to the National Audit Office (NAO) during the course of the year about their value for money study of MAS. We were interested to see that the NAO study drew similar conclusions to our own about the cost and effectiveness of the service. As MAS potentially plays in an important role in improving the state of financial knowledge in the UK, and is funded, at substantial cost, by industry we believe action is needed. We are pleased that this independent review has been commissioned and are keen that it should result in a better targeting of resources.

Although MAS has set out a number of money management outcomes for its customers, it has not so far shown us any examples of what these outcomes look like in practice, and therefore it is difficult to evaluate whether the outcomes are those which would be agreed as appropriate by qualified advisers. The Panel believes there should be more opportunity to evaluate the suitability of information given. Although MAS gives statistics for use of its website, there could be more clarity behind them - for example, 16 million online visits, but are these individuals or repeat visits?

Questions

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

Partly as a result of FCA regulation and MMR mortgage products, for example, are not simple. It can take an experienced regulated adviser two to three hours to give appropriate advice, taking the customer's circumstances into consideration. The Panel is concerned that after reading the MAS website consumers may feel they are capable of making decisions about their own mortgages, whereas in reality there may be many issues around their own circumstances that they have not taken into account.

2. What evidence is there for how consumer capabilities have changed – and what has led to this change?

No comment

3. What evidence is there for how the need for debt advice has changed – and what has led to this change?

No comment

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

The issue is not necessarily the simplicity of products. Many products already are simple, but the number of variations, the process, and the customer's situation, add complexity. That is why brokers are so important in navigating the market. In the mortgage market, one of the consequences of the MMR may be that lenders pull out of the advice market altogether. Therefore reducing complexity in the products themselves will not necessarily improve consumers' ability to choose the right one for them.

5. How has the provision of consumer financial education developed over the past 5-10 years? What are the opportunities for the future?

- How important is the role of commercial and/or not for profit web-based, phone and face-to-face intermediaries now and how might this change in the future?*
- What potential does digital technology and social media have to drive further behavioural change?*
- What role does and should the financial services industry itself play in the delivery of financial education, guidance and advice?*

The Panel is very supportive of the addition of financial education to the National Curriculum. Input from qualified advisers, in conjunction with MAS, would further enhance the work being done in schools.

6. How well does the market for debt advice work – and what opportunities are there to improve how it operates?

No comment

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

- What priority consumer outcomes do you think MAS should focus on?
- Do you agree with MAS's assessment of its target market? If not, what should it be and should MAS be more or less targeted in the groups it focuses on and how it does so?
- How should the work of MAS fit with that of paid-for independent financial advice and the consumer advice and support services provided by organisations such as Citizens Advice?

The Panel believes that MAS should focus more specifically on its education remit, including what managing money means. Advising customers on individual product areas should be carried out as regulated advice, as the complex regulatory system which has evolved is there to protect customers. The many safeguards in place in the regulated system are not replicated in a simple online process and action plan (which is not assessed for appropriateness), leaving customers at risk of making inappropriate decisions, which may not be apparent for many years.

8. What should MAS's balance be between focusing on achieving broad consumer outcomes and focusing on outcomes more specifically linked to current issues faced by mass market consumers such as affording a mortgage with prospective interest rate rises?

No comment

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

The Panel believes MAS could do more in schools, focusing on money handling skills. Examples of topics should include budgeting, evaluating and comparing financial contracts, explanation of credit ratings, debt management and understanding the implications of missing payments.

10. What are, and will be, the needs of consumers in the retirement / decumulation phase of their lives, especially given the changing nature of retirement itself and the evolving retirement income market? What role should MAS play in supporting consumers to meet these needs?

The Panel believes that decumulation, especially in the current uncertain environment, is an area that requires specialist advice. Post RDR there is a gap in the middle market for the supply of such advice, which the proposed guidance guarantee is intended to fill. The Panel supports the provision of guidance by bodies such as MAS and TPAS, rather than product providers, but suggests more work needs to be done on the handoff between unregulated and regulated advice should the customer need more help than the minimum standard provided. Work needs to be done, for example, on developing directories or databases of appropriately qualified advisers to which consumers can be pointed.

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

No comment

12. How effective is MAS's model of directly providing consumer financial education to meet its objectives? What is your view on alternative approaches raised as part of the public debate – for example, white labelling consumer content for others, working more through third parties, adopting an accreditation model to promote higher sector-wide standards, or setting aside funds for others to bid for?

Although the Panel supports the use of partner organisations to deliver information, it has concerns about the transparency of the selection process for partner organisations, and what processes are in place to assess their suitability. Funds allocated to MAS are substantial, but the industry has no say in how they are allocated, or to which third party organisations they may be directed. The Panel believes third parties should be vetted and approved by a body such as the panel of funders it has suggested elsewhere.

13. How effective is MAS's operating model for the delivery of debt advice? Could it be improved further and if so, how?

No comment

The Panel would like to see more transparency on the process for agreeing the spend and allocation of resources for lead organisations within the debt advice remit.

14. How effective is MAS in engaging with stakeholders in the money and debt advice sectors? Are there ways in which this could be improved and if so, what are they?

No comment

15. Is the current £81.1 million annual budget for MAS appropriate, given the remit of the organisation and its objectives? If not, should it be more or less and how should it be allocated? What is your judgement on where to draw the line?

No comment

16. Are there any lessons from things MAS or other organisations do particularly well, that could be applied to one or more of MAS's functions?

No comment

17. How should MAS be measuring its efficiency? For example, what benchmarks should MAS be using to determine its efficiency in its online, phone calls and face-to-face delivery?

No comment

18. What sort of people skills and experience do you think MAS needs over the coming period, in order to be effective?

No comment

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

MAS spends a substantial amount on advertising and website design. The Panel would like to see more evidence of evaluation of the effectiveness of this spend. This should include regular reports, documentation and checks of information given. If there is more detail available on the website usage than is made public, it would like this to be made more widely available.

20. Are the current accountability arrangements for MAS appropriate? If not, in what ways should it be strengthened?

There is a mismatch of accountability and clarity of responsibility in the oversight of the MAS budget in that the FCA and HM Treasury are responsible for approving the MAS budget, but the money comes from the industry which has no say in how it's spent. There should be more input from industry to check the appropriateness of advice given, and to make MAS more accountable to its funders.

The Panel recommends that accountability for the MAS budget and annual plan should lie with a panel of funders who pay the statutory levy (providers and advisers) and with input from the NAO.

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

This should not be a responsibility for MAS without funding from HMRC.

22. Do you have any further evidence on issues in relation to MAS, not covered in your responses to the questions above, that you would like the review team to consider?

No comment