



ICAEW REPRESENTATION

TREASURY SUB-COMMITTEE: CALL FOR EVIDENCE ON THE FUTURE OF THE MONEY ADVICE SERVICE

Written evidence submitted on Friday 1 June 2012

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INTRODUCTION

1. ICAEW is writing to provide written evidence in response to the call for evidence by the Treasury Committee on the future of the Money Advice Service (MAS). We would be pleased to provide oral evidence on any aspect of its submission.

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body supporting over 138,000 members in more than 160 countries. With a Royal Charter, we work in the public interest with governments, regulators and industry to maintain the highest business and ethical standards. We are also a founding member of the Global Accounting Alliance with over 775,000 members worldwide.
3. We represent more than 25,000 professionals working in financial services, and work with partners including the armed forces, the voluntary sector, communities and educational charities to improve financial capability across the UK. Further information is provided at the end of this paper.

EXECUTIVE SUMMARY

4. Our key points are:
 - **We need much greater financial capability in the UK if individuals are to provide for the future, and for the government to achieve its aims on deficit reduction, close the savings gap, and meet the costs of healthcare and other services. It is a false economy not to invest in financial capability. To achieve these public policy goals a sustainable long-term financial capability strategy is required.**
 - **As well as better financial capability, people need the confidence to trust the financial services sector, to provide for basic social and financial needs. They also need basic numeracy skills to make the most of financial capability provision. MAS should work co-operatively across government to help achieve these two complementary aims.**
 - **It's too early to judge whether MAS is meeting its core objectives. When they are fully operational, they should be judged by the outcomes their work generates – based on key performance indicators – rather than simply by their outputs. A key measure of success will be the extent to which their work engages the interest of consumers and helps to encourage more responsible attitudes towards personal finances.**
 - **MAS' performance and expenditure should be monitored by parliament, as well as being strictly monitored by the FCA.**
 - **MAS should aim to co-operate closely with the Department for Education to introduce financial education as a core part of the school curriculum, and it should make the most of workplaces as a channel to deliver financial capability to adults.**
 - **MAS should be wary of relying entirely on online services to deliver support. In our experience, to change behaviours this needs to be complemented with face-to-face and personal contact.**
 - **MAS should also ensure that all key stakeholders are fully engaged in the delivery of financial capability – including businesses, the professions, unions, the education system, regulators and the financial services industry.**

CONTEXT

5. The global financial crisis highlighted an absence of responsible financial management by business, governments and consumers. While there is some evidence that consumers in the UK are starting to pay down their debts in the aftermath of that crisis, the Office for Budget Responsibility (OBR) predicts that total household debt will exceed £2 trillion by 2017.

6. In a context of an ageing population and the possibility of low growth for years to come, governments will look to individuals to make greater personal provision for retirement and other requirements, such as healthcare. For this to work, the general population needs greater financial capability. Financial education will be an important part of this.
7. This matters to individuals, but it also matters to core government priorities such as reducing national debt, encouraging a savings culture, and meeting the rising costs of old age and healthcare.
8. This means it is a false economy to not strategically invest in financial capability in society. We need a concerted, joined-up policy framework to improve the UK's financial capability – and MAS must play a strong role in that.

Improving trust in the financial services sector

9. Financial capability and education is not enough, however; people need to be able to trust the financial sector. After long-standing concerns about poor service standards and mis-selling, this will be difficult. The volume of complaints received by UK financial services firms amounted to over 1.8 million in the first half of 2011, half of which were upheld. These outcomes are profoundly disappointing after around 25 years of formal regulation. They are bad for consumers, and for the many firms in financial services that are run soundly but which can be grouped with those that are not.

RESPONSES TO SELECTED QUESTIONS

Q1: To what extent is MAS meeting its core objectives? Are these the right objectives for MAS to have?

10. It is too early to tell whether MAS has enhanced the understanding, knowledge and behavior of members of the public of financial matters including UK financial systems. 2010/11 was a year of transition, where the Consumer Financial Education Body (CFEB) was re-branded as the MAS. The year ahead will also see an introduction of new services and change.
11. In their 2012/13 business plan, MAS have set out some ambitious targets. It aims to reach 1.9 million people through MAS' services in 2012/13. It will only introduce a new service in the second quarter of 2012. This includes, "*improved tools, re-written information and generic advice, empowering people to take decisions and encouraging them to action.*" The business plan also indicates it will conduct research on "*how people manage their money and how their attitudes and mindset influence the decisions they make, and the action they take to refine the definition of financial capability.*" MAS plan to use this data to measure the effectiveness of their service.
12. MAS should be planning to provide transparent, accurate, annual data on its services, outcomes and targets. Where targets are missed, MAS should provide information on why this has happened and a plan of action on how it will improve its services to this Committee and the proposed Financial Conduct Authority (FCA).
13. Before MAS undertakes extensive and possibly costly research on money management and attitudes, ICAEW recommends MAS take into consideration successful financial capability research and initiatives from the UK and abroad. There is no need to 'reinvent the wheel' given the breadth of knowledge readily available. Examples include:
 - The Organisation for Economic Co-operation and Development (OECD) developed an International Gateway for Financial Education in 2008. This gateway was established in the wake of the financial crisis and identifies gaps by international stakeholders in the financial education area, including: 1) sound and comprehensive data, research, studies and information on financial education issues and programmes worldwide; 2) a reliable source of dissemination and comparison of this information; 3) a tool to exchange

information, experiences and best practices on financial education between governmental representatives and key stakeholders. In this respect major financial education stakeholders are invited to provide further information on their programmes/initiatives or on research work relative to financial education.

- Financial Literacy and Retirement Planning research by the Swedish Finance Ministry. This research examined the relationship between financial literacy and retirement planning in a representative sample of Swedish adults. The report found significant differences in financial literacy between planners and non-planners. Financial literacy levels were also lower among older people, women and those with low education or earnings. ICAEW recognises parallels may be found in the UK experience.
- The Friends Provident Foundation is a grant-making charity, currently working to create the conditions throughout the UK for improved access to appropriate financial services for those who are currently excluded, particularly those on low incomes or otherwise vulnerable to market failure. Their current Foundation Director was a member of HM Treasury's Financial Inclusion Taskforce and works collaboratively with other stakeholders to help achieve the broader public policy goals.

14. While ICAEW appreciates MAS is undergoing a major transition since 2011, it is critical that quality and breadth of services and financial advice are not compromised and are readily available to the public now. This is particularly important at a time when individuals and households are feeling the effects of the economic downturn and rising living costs.
15. MAS' accountability mechanisms are focused on numbers being reached rather than behavioral change. Once MAS have started operating fully, it will be vital to measure their outcomes as well as outputs. To do that, MAS should adopt measurable quantitative and qualitative Key Performance Indicators (KPIs) that focus should on outcomes related to engagement and behavioral change in addition to outputs.
16. Any online information and guidance MAS provides should be supported by the offer of face to face contact/support. In our experience, it is difficult to increase financial capability and influence behavioral change by written information alone. Building capability by face-to-face support helps to empower individuals, in turn increasing their knowledge and understanding and allowing them to take control and feel confident making decisions on their personal finance.
17. ICAEW research highlights the merits in avoiding a 'one size fits all' approach to financial capability and influencing financial behavioral change. Feedback suggests that residents in vulnerable communities will not entertain information from a website unless supported by a familiar or trusted face. In the past, government initiatives, for example, the FSA Money Made Clear, has been met with little enthusiasm as the content does not provide relevant and suitable guidance. ICAEW's approach has been to work with real people on the ground in local communities to understand the issues they face and where they lack knowledge and understanding. By doing this we have provided information that responds to the consumer. It is not clear whether MAS has a similar approach to the services it provides.

Q2: How effective is the MAS's internal administration and expenditure on staff and other resources?

18. MAS' 2012/13 business plan estimates that it requires £46.255 million to deliver on services within this period. MAS' internal administration and expenditure on staff and other resources should be weighed against performance and outcomes to its core objectives. The Treasury Select Committee and the proposed Financial Conduct Authority (FCA) should regularly monitor and assess the MAS's internal administration and expenditure on staff and other resources.

Q3: What accountability mechanisms are in place for MAS? Are they sufficient? How can effectiveness of the MAS be assessed?

19. We would suggest that the Treasury Select Committee ensures its hearings with the FCA explore the development and progress of MAS. The committee should monitor the main challenges MAS is addressing, and review how MAS is achieving its targets.

Q5: To what extent are the services provided by MAS also provided by other organisations? How does MAS compare to those organisations?

20. Prior to the establishment of MAS, Pfeg was being funded by both the FSA and the Department for Education (DfE) with an aim to improve and raise the awareness of financial capability for young people in primary and secondary schools. The removal of this financial support in 2011 has had considerable impact on the good work achieved by Pfeg in its 12 years of active engagement in financial education. For example, Pfeg have had to use funding from their charitable reserves to run their My Money Week. My Money Week is the highest profile, and most-recognised personal finance education initiative in England and is now under threat. MAS should look to co-operate with organisations with a proven track record, such as Pfeg.

Q7: Should MAS have a greater role in financial education in schools?

21. Financial education should be included in the national curriculum. While this is likely to be overseen by the Department for Education (DfE), to ensure coordinated policy across government, it is vital that MAS is closely involved with this.

22. We are pleased that in their business plan, MAS endorse the concept of putting financial education on the school curriculum. This is a tangible and effective way to ensure young people are equipped with the skills to manage their money wisely.

23. MAS is completing research into financial education provision in schools this summer. We hope this will be a conclusive report which sets the tone for a greater role for MAS in working with DfE to further develop financial education in schools.

24. But financial education is not enough on its own. ICAEW research with the Centre for Cities this year demonstrated the need for a greater emphasis on mathematics education, particularly in schools in struggling cities. Basic numeracy is fundamental if children – and adults – are to benefit from financial education.

25. In the meantime, MAS should enhance its focus on delivering financial capability through employers and workplaces. People must navigate a complex array of financial issues and products via the workplace, such as tax, national insurance, pensions and benefits. With the arrival of auto-enrolment pensions in the coming years, this challenge will only increase. For those in work, their place of employment can be the most direct, accessible and effective route through which to raise financial capability.

Q8: How appropriate is the model, using fees raised from financial services firms regulated by the FSA, by which the MAS is funded?

26. An industry levy is a cost-effective way to fund MAS's work.

OUR FINANCIAL SERVICES AND FINANCIAL CAPABILITY WORK

27. Our Financial Services Faculty brings together professionals from the 25,000 ICAEW members and others working in the financial sector, including those working for regulated firms, in professional services firms, intermediaries and regulators. The faculty's thought leadership framework focuses on responsible consumers, responsible providers, better information and better regulation.

- 28.** Our financial capability work draws on the technical expertise within the accountancy profession to develop financial capability projects with private, public and third sector organisations. Major projects include:
- 28.1. Working with the Ministry of Defence (MOD), the Standard Life Charitable Trust (SLCT), the Royal British Legion (RBL) and the Money Advice Service (MAS) to help promote financial capability among service men and women.
 - 28.2. Working with Grant Thornton LLP, the National Skills Academy for Financial Services (NSAFS) and Poplar Housing and Regeneration Community Association (Poplar HARCA) to create a website to enhance financial capability. 'At Home With Money' is an accessible online tool, covering everything from basic banks accounts to dealing with debt.
 - 28.3. We developed Use Your Expertise (UYE) with the Personal Finance Education Group (pfeg), supporting ICAEW member volunteers to increase financial capability and literacy activity within approximately 400 secondary schools across the UK.
 - 28.4. We run a national business game competition called Business, Accounting and Skills Education (BASE), specifically designed to increase the financial awareness and business skills of students, and address employability skills through a highly interactive business game. ICAEW activities in schools reach 2,000 schools across the UK.
 - 28.5. With SimVenture, we have created a tailored business simulation software called Business Opportunity Skills Session (BOSS) which helps teachers to engage their students in entrepreneurial activity and in the development of finance skills.

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