moneyadvicescotland
Scotland's Money Charity

RESPONSE

HM TREASURY CONSULTATION:
PUBLIC FINANCIAL GUIDANCE

Yvonne MacDermid OBE, Chief Executive Officer, Money Advice Scotland
David Hilferty, Executive Officer (Policy and Support), Money Advice Scotland
December 2015

About Money Advice Scotland

Money Advice Scotland is the national umbrella organisation in Scotland which promotes and champions financial inclusion and the development of free, independent, impartial, confidential money advice. A registered charity, Money Advice Scotland was set up in 1989 and provides the following services to its members:

- Standards and quality framework development
- Qualifications
- Training
- Financial Capability programme
- Research and policy input
- Annual Conference
- Seminars and other events
- Publications
- Consultancy
- Organisational audit

Our membership includes money advisers at housing associations, local authorities, Citizens Advice Bureaux and other information and advice agencies. Money Advice Scotland makes it a priority to ensure that the views of its members feature clearly and persuasively on the policy agenda across Scotland and the UK. Our Strategic Plan outlines our commitment to leading and improving the financial health and wellbeing of the people of Scotland.

In terms of standards and quality framework development, Money Advice Scotland has been at the forefront of raising standards in Scotland and beyond. The organisation was involved in developing a framework which underpinned the Debt Arrangement Scheme Regulations, and gave assurance that the advice being given to clients was of quality. The framework which was in place until 2011, the casework of which was assessed by competent advisers who were also approved advisers under the Statutory Debt Arrangement scheme.

Money Advice Scotland is an approved Centre for the delivery of Scottish Vocational Qualifications in Advice and Guidance. It is currently working with the Institute of Money Advisers in England and Wales and has developed the Scottish version of the Certificate in Money Advice Practice. Money Advice Scotland is also working closely with the Money Advice Service in terms of the development of a national money advice quality framework.

With regard to training of money advisers, the organisation has been using standards to underpin its training for almost 20 years. In more recent times, the Scottish Government in conjunction with the advice sector has developed the Scottish National Standards in Information and Advice (SNS) and Money Advice Scotland was a pivotal player in their development. These standards are enshrined in current training and also help shape the Certificate in Money Advice Practice, together with the National Occupational Standards in Advice and Guidance.

Since November 2014, Money Advice Scotland has been responsible for the roll-out of the Scottish Government's Financial Capability programme which administers financial education through a combination of workshops, training and e-learning. The requirement for financial education of individuals experiencing debt problems is recognised in the Bankruptcy and Debt Advice (Scotland) Act 2014.

In January 2015, Money Advice Scotland also launched the Scottish Financial Health Service helpline in collaboration with the Scottish Government.

1. Introduction

Money Advice Scotland welcomes the opportunity to contribute to the consultation on Public Financial Guidance that was published alongside the Financial Advice Market Review.

Our mission as an organisation is *to be the driving force towards financial wellbeing for the people of Scotland.* The provision of effective, quality public financial guidance forms a central part in helping consumers make the right financial decisions at each stage of their lives.

Q1. Do people with protected characteristics under the Equalities Act 2010, or any consumers in vulnerable circumstances, have particular needs for public financial guidance or difficulty finding and obtaining that guidance?

In our experience, certain vulnerable groups continue to be excluded from accessing services. Many of these groups are subject to what has become known as the 'poverty premium' – the additional cost incurred by the poorest when accessing basic financial products and services. Research from the Joseph Rowntree Foundation notes that the cost of the poverty premium for the poorest could be worth as much as 10p in every pound of their income. For a single parent on the minimum wage, this meant they had £52 per week less than what was required for a socially acceptable standard of living, or a shortfall of £2,704 every year.[1]

This is pertinent to this question because we know that people from minority ethnic groups are more likely to be in poverty than the rest of the population. The Scottish Government's Income and Poverty Analysis shows that 36 per cent of minority ethnic groups are classed as being in poverty after housing costs compared to 17 per cent of those in the 'White British' group.[2]

At Money Advice Scotland, we work in partnership with the Council of Ethnic Minority Voluntary Sector Organisations to support the delivery of a high quality money advice service to those from BME backgrounds. In our view, more must continue to be done in this respect, whether that be in the provision of accessible debt advice or in targeting financial capability at people with protected characteristics. What's more, further research is required in this area to ascertain the gaps in available advice for ethnic minority groups.

Another important consideration for people with protected characteristics is the issue of digital inclusion. The Money Advice Service deploys a 'digital first' strategy given that the vast majority of people are now using internet search engines to find the information they need. However, the statutory body should continue to remain mindful that certain people with protected characteristics will have particular needs that may not be met by online resources.

For example, Deafblind UK has previously noted that the digital revolution has meant that people with combined sight and hearing loss have not had the same opportunities as others.[3] Alongside the focus on the digital first strategy, then, the statutory body should continue to expand its existing reach into marginalised groups in society.

---

[1] Joseph Rowntree Foundation, *The poor are still paying more for basic utilities and financial services*, 17 June 2013
[2] Scottish Government, *Poverty and Income Inequality in Scotland: 2013/14*, 25 June 2015,
[3] http://deafblind.org.uk/what-we-do/digital-inclusion/

Although not a protected characteristic group, consideration must also be given to access for people living in rural and island communities. This group currently experience difficulty in accessing even the most basic financial services. In recent years, highlands and islands communities in Scotland have been impacted by a series of bank branch closures. What's more, broadband access is intermittent at best and this limits access to alternative online services. In Orkney, for example, just 56 per cent of households have access to broadband compared to the national average of 86 per cent. Again, this has relevance when a digital first strategy for public financial guidance is pursued by the statutory body and we would recommend that the government remain attentive to these specific needs throughout its ongoing review.

2. Debt

According to analysis from the Office for Budget Responsibility (OBR), personal debt is on the rise and approaching levels not seen since the lead up to the financial crisis. That is, of course, the same crisis where household debt increased from 100% of GDP in 2000 to 160% of GDP by 2007. On the latest OBR projections, gross household debt is expected to reach 163 per cent of household disposable income by 2020.[4] Economic recovery therefore appears to be underpinned by mounting personal debt, rather than productivity and wage growth. With escalating personal debt levels, it is inevitable that demand for money and debt advice will also increase over the same period.

Access to free, impartial and quality advice must also be improved at a time when demand for these services can be expected to increase. From recent Money Advice Service research, we know that only 17 per cent of indebted people are currently accessing advice.[5] The effects of over-indebtedness on every aspect of a person's life cannot be understated. For example, the mental health charity Mind recently reported that one in four people with mental health problems were in need of debt advice.[6] This demonstrates the need for a holistic approach and the recognition that a client in need of public financial guidance will likely also require a wider network of support from other agencies.

Q2. What additional, or alternative functions and structures could a statutory body put in place to effectively coordinate debt advice provision?

Role of devolved nations

In terms of structure, it is imperative that all devolved nations have an equal say and proportionate representation on any board to ensure that specific needs are adequately discussed and addressed. In terms of financial debt in Scotland, for example, the Office for National Statistics has observed a sharp increase in median household debt levels from £2,250 per household in 2008/10, to £3,480 per household by 2010/12. This represents a striking increase of 54.7 per cent over a relatively short period. The statutory body should therefore be mindful of these factors when coordinating debt advice provision across the devolved nations.

Research on debt causes

At a time when household debt is forecast to continue to rise, the statutory body is also well placed to undertake research so that we can better understand the underlying causes of debt in Scotland and across the UK. The previously cited Money Advice Service *Indebted Lives* research offers invaluable segmentation and geographic breakdowns of people in debt. This has the twofold benefit of both improving the ability of debt and money advisers to reach suitable solutions for clients as well as helping to tailor financial capability for indebted people.

---

[4] Office for Budget Responsibility, *Economic and fiscal outlook*, November 2015
[5] Money Advice Service, *Indebted Lives, The complexities of life in debt*, 2013
[6] Mind, *Still in the red: Update on Debt and Mental Health,* 2011

Q3. What role should a statutory advice body have in providing quality assurance and setting standards for debt advice?

In our experience, the quality of money and debt advice is variable across the sector and a statutory body has a key responsibility in ensuring consistency in standards.

Money Advice Scotland currently works with non-accredited advice agencies to review and develop their systems and practices so that they can deliver an advice service which meets Scottish National Standards. In addition, we work with debt advisers to develop their skills so that they can become 'money coaches' to their clients. This involves supporting advisers through an SVQ Learning and Development Unit and assessing them whilst they work with clients to develop their financial capability skills.

We take the view that the statutory body should set and uphold standards to ensure the quality of advice across the UK.

Q4. What scope is there to rationalise the funding of public financial guidance provision on debt?

The rationalisation of public financial guidance would likely require the restructuring of debt advice provision, especially in Scotland where local authorities continue to be the main funders and providers of debt advice. In this sense, debt advice sits within a wider strategy for each local authority area and funding can be allocated according to local needs.

In Scotland, partners across the public financial guidance sector work well together with different organisations all playing to their respective strengths. Rationalisation of funding must not be undertaken at the expense of losing specific skillsets and expertise that separate organisations are presently able to provide.

3. Pensions

Across the UK, people are living longer than ever before. Yet alongside this positive news comes implications of how this will be funded and few financial products are as complex but also as important to a consumer's future as pensions.

The swathe of changes to the pension system over the course of the last Parliament only added to this complexity. Research from the Department of Work and Pensions shows that 11.9m people are not saving enough towards a pension.[7] The disconcerting prevalence of 'undersaving' can be explained in part by the lack of awareness, with PwC analysis revealing that six out of ten people are not saving enough because they don't understand the system.[8]

In recent years, then, a damaging cycle has emerged: people aren't aware of how the pensions system works so they are not saving enough. But equally, people aren't saving enough precisely because they do not understand the system. Public financial guidance can form a key defence against this lack of awareness on pensions. More choice can only be a good thing, but with this must come more awareness and more education on the possible risks and pitfalls.

From a money and debt advice perspective, concerns have already been raised that changes in pension freedoms will lead to implications for debtors. For example, with increased freedoms, could debtors be encouraged by creditors to draw down pension pots earlier to repay debt in the short-term, but leaving them with an income deficit in the long-term? We observe that there is also an advice gap, whereby people aged over 55 with pensions will not be able to obtain regulated advice on whether to cash the pension, unless the money adviser is authorised by the FCA. This means that money advisers will need to be acutely aware of the perimeter of the regulatory boundary and not cross this line.

Q5. What additional, or alternative functions and structures could a statutory body put in place to effectively coordinate public financial guidance on pensions?

Wake-up packs

As outlined above, a consistent theme quickly emerges in the discussion of public financial guidance – namely, that improved awareness and education is required. At present, 'wake up packs' are sent to consumers from the statutory body within 6 months of retirement and provide two main products: an annuities comparison table alongside a 'retirement adviser directory where consumers can find a regulated financial adviser where appropriate.

Michelle Cracknell, Director of the Pensions Advisory Service, has argued that the 'wake up packs' should be issued sooner.

> People get wake-up packs too late in the journey. Many have often made their decisions already. I think the conversation should be moved away from where it sits at the moment.[9]

[7] Department for Work and Pensions, *Scenario analysis of future pension incomes*, August 2014
[8] PwC, *Wider pensions reform needed to tackle pension savings shortfall*, 30 September 2015
[9] Financial Times, *Altmann admits pension wake-up packs are failing*, 23 November 2015

It is telling that the Pensions Minister Baroness Ros Altmann has said that more still needs to be done to send people in the direction of public guidance, rather than referring to in-house advice helplines. The Minister noted her concern that a letter she had personally received from a provider encouraged her to call the provider's in house service several times before the Pension Wise number finally appears at the end of the letter.[10] However, this view neglects the role of Government in promoting and improving take-up of the service. Further, the fact that statistics on take-up have still not been published means that it is difficult to monitor and assess the gap in demand for guidance.

Protection from scams

Easier access to pension pots can also mean greater susceptibility to scammers. Following the implementation of the changes, Action Fraud UK reported a significant increase in money lost to non-existent schemes during the first month alone – from £1.5m in April to £4.7m in May.[11] In October, the Financial Times reported that one in seven over-55s have been targeted since the opening up of pension freedoms.[12]

Money and debt advisers are already reporting cases of clients who are being inundated with correspondence and phone calls from bogus investors. As an additional function, then, the statutory body should do more to protect and educate consumers from the scams that are beginning to proliferate under the latest changes to the pension system.

Q6. How could the organisational delivery of public financial guidance on pensions be improved to provide greater efficiency?

Increasing take-up and online presence

Since its recent inception, a recurring criticism of Pension Wise is the lower than expected take-up of the service. Pension Wise has set up 20,000 guidance appointments since being established, yet 320,000 people retire each year with defined contribution pension schemes. It was initially anticipated that around 75 per cent of people would take up the offer of guidance. However, providers currently estimate that this is closer to around 25 per cent. Perhaps there is some irony that a body set up to raise public awareness on pensions has itself been hamstrung by a lack of public engagement.

As mentioned in our previous comments in the 'Debt' section, the Money Advice Service pursues a digital first strategy with the intention of reaching as many people as possible. In contrast, Pension Wise has been criticised for its poor online presence. The Work and Pensions Select Committee was particularly scathing:

> The Pension Wise website is not fit for purpose. It is static, offering no opportunities for personalisation, and lags well behind many private services. This is a particular

[10] Financial Times, *Altmann admits pension wake-up packs are failing*, 23 November 2015
[11] Guardian, *Scammers targeting over-55s to exploit new pension freedoms,* 7 August 2015
[12] Financial Times, *One in seven over-55s have been targeted by pension fraudsters*, 27 October 2015

concern given it is the primary independent guidance channel for a large proportion of consumers.[13]

With this in mind, the future delivery of Pension Wise will benefit from improved online presence and by offering a personalised approach for consumers.

Pension Wise in Scotland

In Scotland, Pension Wise is delivered by Citizens Advice Scotland (CAS) and its network of members. We are of the view that information on who is using Pension Wise should be made publicly available. For example, is the service reaching consumers that otherwise wouldn't have obtained advice under the previous arrangement? Are certain demographic classifications more likely to use Pension Wise? The scale of the advice gap will remain unknown until the government publishes statistics and analysis to show the take-up and effectiveness of the new service.

The Work and Pensions Committee noted that a major drawback in the present Pension Wise system was the difficulty in offering advice on retirement income without taking into account a person's wider financial circumstances. We would also share the recommendation of the Work and Pensions Select Committee[14] that users of the Pension Wise service would benefit from a second follow-up appointment, especially whilst take-up remains low.

The case for holistic guidance

The Scottish Government has established the Scottish Financial Health Service and there is scope for public financial guidance on pensions to form part of that overall package of financial capability and education. By 2018, pension contributions will be five times what they are now meaning less disposable income and implications for budgeting and money management. Yet again, this would provide the opportunity to adopt a holistic approach to a consumer's financial situation.

Again, younger people will be disproportionately impacted by the spate of changes in pension legislation of recent years. The Department of Work and Pensions notes that younger cohorts are more at risk of undersaving.[15] Only weeks ago, we also learned from a study by the Institute for Fiscal Studies that young people are set to be poorer than their parents at every stage of their lives.[16]

Whilst we understand that those immediately approaching retirement age will always be the highest priority, we hope that the statutory body will be mindful of also raising awareness and guidance on pensions amongst younger generations.

[13] Work and Pensions Committee, *Pension freedom guidance and advice*, 19 October 2015
[14] ibid
[15] Department for Work and Pensions, *Scenario analysis of future pension incomes*, August 2014
[16] Institute for Fiscal Studies, *The Evolution of Wealth in Great Britain: 2006-08 to 2010-12*, November 2015

Q7. What scope is there to rationalise the funding of public financial guidance provision on pensions?

As mentioned throughout our previous answers, there is certainly scope to deal with clients in a holistic way. In our view, it makes sense to co-ordinate face-to-face public financial guidance through the channels of CABx and local authority advisers, amongst others in the advice community.

Again, however, we would stress that rationalisation of funding should not be seen as an opportunity to cut back on services, especially when this is detrimental to the most vulnerable consumers.

4. Money and financial capability

Money Advice Scotland has long been a vocal advocate of financial education for young people with the view that prevention in the long term is often more effective than cure in times of crisis. Research from the Money Advice Service backs up this position, finding that many attitudes to money are already set by the time a child reaches the age of seven.[17] Early intervention has proved successful in a range of policy areas – from health outcomes to improving literacy and numeracy – and financial capability should be no different.

The case for improved financial capability has never been more apparent. The recently published Financial Capability Strategy for the UK reported that 27 million working age adults do not have a sufficient savings buffer to allow them to cope with a significant income shock and 22 per cent could not read the balance on a bank statement.[18] The Financial Capability Strategy for Scotland is set to be launched in January 2016.

More young people are also getting into debt than ever before. During the period from 2008 to 2012, the median financial debt for 16-24 year olds rocketed from £1,540 to £3,000.[19] This was the largest increase of any age group and whilst the Office for National Statistics does not break down the specific type of debt, we know from previous research from Citizen's Advice that young people are more likely to turn to high cost credit.[20]

Since November 2014, Money Advice Scotland has been responsible for the roll-out of the Scottish Government's Financial Capability programme which administers financial education through a combination of workshops, training and e-learning.[21] The requirement for the financial education of individuals experiencing debt problems was entrenched in the Bankruptcy and Debt Advice (Scotland) Act 2014.

Before addressing the questions in this section of the consultation, we would make one important caveat on the discussion of financial capability that we would urge the government to be ever mindful of. People on low incomes often get into debt not because they are not financially capable, but because they do not have enough money to live on. Put simply, financial capability will only be helpful if a person has a socially acceptable income in the first place. In its consultation, the government must not use financial capability as some kind of get-out that allows the misconception that people on low incomes are profligate to propagate. Instead, financial capability should be viewed within the wider context of moving towards a minimum income standard.

Q8. Are the statutory objectives underpinning MAS the right ones?

Money Advice Scotland supports the statutory objectives that currently underpin the Money Advice Service. In our view, the commitment to championing the rights of the most vulnerable consumers sits well with the existing statutory objectives. This may be considered

[17] Money Advice Service, *Habit Formation and Learning in Young Children*, 2013
[18] The Financial Capability Strategy for the UK, October 2015
[19] Office for National Statistics, *The Burden of Financial and Property Debt, Great Britain, 2010 to 2012*, July 2015
[20] Citizens Advice Service, *Generation Y turning to high-cost credit*, 16 October 2014
[21] http://www.moneyadvicescotland.org.uk/content/financial-capability

as implicit in the current objectives, but the responsibility to helping the most vulnerable consumers could be made more overt.

Q9. What role, if any, should a statutory body have in providing general money guidance?

We believe that with its extensive marketing budget and online presence, the Money Advice Service is well-positioned to continue to offer telephone and website support for consumers. In terms of face-to-face guidance, the statutory body should continue to provide a signposting function for localised money advisers. For our part, as an organisation whose membership encompasses advisers in local authorities, housing associations and CABx, we would be willing and able to support the statutory body in the continuing provision of face-to-face appointments through referrals.

Even in the digital age, face-to-face appointments continue to provide a key component of support for vulnerable consumers, with several meetings often necessary to get to the root of certain sensitive issues. For example, our own members report that a stigma continues to exist around the discussion of gambling-related debts. One adviser referred to a client who had approached her with various debts. When completing an income and expenditure assessment, it became clear that some information was being withheld. After a series of meetings, the client eventually revealed that her partner had a gambling addiction and this was responsible for the missing income. In her view, it is generally the case that a relationship of trust must be built up before a client will disclose certain types of problems, meaning that this delay becomes a further barrier to addressing the debt. This type of example underlines the case for continuing face-to-face appointments at a time when it is sometimes assumed that all people are comfortable with digital technology.

Q10. What role, if any, should a statutory body have in supporting financial capability?

The Money Advice Service financial health check is currently incorporated into our own financial capability project. This is a valuable tool for our programme and we believe that the statutory body should continue to use its greater reach to assist smaller organisations and stakeholders by syndicating these types of resources.

What’s more, the recently published Financial Capability Strategy for the UK demonstrates real commitment from the statutory body towards improving the financial wellbeing of consumers. The decision to develop a distinct strategy for Scotland – in acknowledgement of the specific needs to be addressed across the devolved nations – is also to be welcomed. Money Advice Scotland was pleased to be among the various stakeholders and organisations consulted during this process and the statutory body should continue to fulfil this level of engagement in future.

Q11. What scope is there to rationalise the funding of public financial guidance provision on money matters and / or financial capability?

We would reiterate our previous answers that funding rationalisation must not be undertaken at the expense of limiting the consumer’s access to important services.

5. What does government need to provide?

Q12. How do you think that the government could best complement voluntary sector provision of financial guidance?

In Scotland, financial capability is already integrated into the debt solution process as part of the Bankruptcy and Debt Advice (Scotland) Act 2014, soon to be consolidated as part of the Bankruptcy (Scotland) Bill. Under this legislation, a debtor can be 'required' to undertake statutory financial capability facilitated by Money Advice Scotland before they can be discharged from bankruptcy.[22] As part of the Financial Capability Strategy, this model will be assessed for its suitability across the UK and we can vouch for this as an example of successful collaboration between government and the third sector.

The government is also uniquely placed to promote awareness of the services available to consumers. It is important that government uses its reach and influence to help coordinate and direct consumers towards appropriate services in the voluntary and third sector so that as many people as possible get the help they need.

Q13. Do you think that the government could offer a more integrated public financial guidance service to consumers, throughout their lives? How do you think this could be achieved?

We outlined in a previous answer that attitudes to money are set by the time a child reaches seven years of age, underlining the need for guidance from an early stage and throughout a person's life. At Money Advice Scotland, our financial capability programme encompasses eight online modules that are focused on general themes such as budgeting as well as more life-specific events such as having a baby or moving home.[23] This is in acknowledgement of the fact that consumers will require financial guidance throughout their lives and to help equip people with the knowledge to make the right choices in difficult situations.

As part of any integrated public financial guidance service, the government must also place more emphasis on viewing the consumer holistically and acknowledge that part of this approach is ensuring that people have a socially acceptable standard of living in the first place. Financial capability and education income must not become some kind of get-out that allows the misconception that people on low incomes are profligate to propagate.

Q14. Do you think the government should explore any alternative options for the provision of public financial guidance?

The main alternative option being discussed for the provision of public financial guidance is the implementation of a government-backed voucher scheme allowing a consumer to seek out independent financial advice from an accredited partner. Perhaps pre-empting the outcome of this consultation, the former Pensions Minister Steve Webb has already predicted that the government will pursue this path in its attempts to bridge the advice gap,

---

[22] Scottish Parliament Information Centre Briefing, *Bankruptcy and Debt Advice (Scotland) Bill 13/60*, September 2013

[23] More information on our financial capability project is available here http://www.moneyadvicescotland.org.uk/content/financial-capability

particularly in relation to pensions. Independent financial advisers have also voiced support for this type of scheme.

Within the opening paragraphs of the consultation document, it is stated that ‘consumers attach a greater value to “government-backed” guidance.’ It is uncertain, however, whether consumers would place the same value on referrals from government to IFAs in the same way that they currently do with referrals from the statutory body to other advice agencies.

Nonetheless, it is clear that more must be done to recognise the need to increase access to advice with so many consumers still falling through the net. As set out previously, Pension Wise has been thwarted by poor take-up and more options for consumers may help to tackle the advice gap. In our view, a voucher type system would work best as an additional option to consumers, however, rather than as a like-for-like replacement of the existing system of support.

6. How should it be provided?

Q15. Are the suggested core services the right ones? Should any core services be added?

To clarify, the delivery of core services is different in Scotland whereby the Money Advice Service is not solely responsible for providing and coordinating advice (this role is assumed by local authorities) although it does allocate funding. That said, we believe the suggested core services are the correct ones.

Q16. Are the suggested principles the right ones to underpin the statutory provision of the core services? Should any principles be added or removed?

We are of the view that the suggested principles are appropriate. In addition, we would include a principle that advocates choice for consumers. The suggested principles may also benefit from including a reference to redress and what consumers can do when things go wrong.

Q17. Do you think that statutory provision should be restructured to improve the guidance service to consumers, and if so, how?

In our view, whatever provisions are in place and no matter how this is structured, the priority for financial guidance must be to provide an efficient, effective and accountable service for consumers.