The Building Societies Association response to HM Treasury's consultation on public financial guidance

Restricted
27 May 2016

Building Societies Association

Introduction

The Building Societies Association (BSA) represents all 44 UK building societies. Building societies have total assets of over £345 billion and, together with their subsidiaries, hold residential mortgages of over £270 billion, 21% of the total outstanding in the UK. They hold over £250 billion of retail deposits, accounting for 18% of all such deposits in the UK. Building societies account for about 31% of all cash ISA balances. They employ approximately 40,000 full and part-time staff and operate through approximately 1,550 branches.

This response has been prepared by the BSA in consultation with its members. We have provided responses to the questions that directly affect BSA members only.

General Comments

We welcome proposals to restructure the current public financial guidance model and the intention to provide a clear statutory remit for the new bodies. The BSA is keen to engage with and support the new guidance bodies both through their transition period and as they continue to develop in the future. We do however believe that there is an opportunity for the structure to be further simplified and consequently for it to result in a more effective and efficient vehicle for delivering its objectives.

Consumers need to be able to access appropriate financial guidance for them in a way that they find simple, straight forward and unintimidating manner. Consumers will need guidance at various different life stages to assist them with the expected and unexpected and come to it with differing levels of knowledge and expertise..

We feel that a single body would achieve this in a more effective and cost-efficient way than the proposal for both a money guidance body and pensions guidance body. Two bodies would need a more complex structure to support them including two separate boards and the requirement for each to develop its own strategy to meet its statutory objectives. Whilst we appreciate that the intention is for a partnership agreement to be put in place to ensure strategies align and are complementary, it will be challenging for the two bodies to ensure that there is neither overlap or gaps in provision. In addition, funding two organisations will add unnecessary cost.

The difficulty with providing public financial guidance is that for it to be effective and ensure that an individual is fully equipped and supported to make the best decision for them regarding their finances it needs to be holistic. To therefore consider a pension in isolation from the rest of a person's finances and vice versa to consider a pension without considering for example their future housing needs, or ensuring they have a sufficient emergency fund which is instant access, wouldn't lead to the best consumer outcome and would constitute poor guidance.

It would therefore seem a more pragmatic approach for one guidance body to have over-all responsibility for public financial guidance and within it incorporate the various elements which could still be segmented by department as appropriate.

This would also make it more straight forward for the organisations who provide public financial guidance as they will only need to work with one body.

Whilst we strongly support a single body structure it should also be cautioned that without specific and clear objectives there is a danger that mistakes of the past could be repeated. The proposed objectives of the money guidance body as stated in the consultation paper are very broad; covering debt advice, money guidance and financial capability. This significantly increases the likelihood of the scope of the organisation creeping over time and the body becoming cost-ineffective.

The focus on filling gaps in provision is appropriate and it is reassuring that the money guidance body will not be a direct deliverer of services but where gaps are identified commission the provision of services.

Questions

Are there any specific guidance gaps in the current pensions guidance offering that you think the new body should fill?

We believe that the pensions guidance offering of the new body should, as far as possible, be constituted as a broad 'Retirement Wise' service. This should offer all of the guidance which TPAS currently offers on both Defined Benefit and Defined Contribution schemes, but filling in some of the gaps that currently exist regarding other areas of retirement planning.

While we are aware that Pension Wise was constituted specifically to educate the public about the pension freedoms, there is a good opportunity to re-task the service now that the flurry of activity immediately following the changes is calming down. The service model of Pension Wise, including telephone guidance and face-to-face appointments, could be applied to a range of other retirement issues. One of these will be the secondary annuity market which the Government plans to introduce.

We note as mortgage lenders that while mortgage advice is almost fully mandatory, pension advice is far from it. Yet there are significant knock-on effects between the two – and it is a gap we believe could be filled with guidance. One example concerns the recent pension freedoms. A customer over the age of 55 with a defined contribution pension pot may approach a building society for a mortgage. This may be underwritten against their pension income if the mortgage term extends beyond their retirement age. Therefore, taking out that mortgage may limit the customer's options in future with regard to taking a lump sum or income drawdown from their pension pot. This is one reason why we feel it is important for consumers to be able to access holistic financial guidance.

We also believe that the new body should be able to take housing wealth into account. Increasingly we hear people say 'my house is my retirement' and yet it is difficult to find guidance which considers both in tandem. The average person may have a pension pot worth tens of thousands, but housing equity of hundreds of thousands. Clearly not all of this value is realisable but consumers should be made aware of the options and tax implications of downsizing, re-mortgaging or accessing equity release, the new body should have the capacity to correctly sign-post consumers.

As HM Treasury will be aware, the Financial Advice Market Review recommends that a series of 'nudges' should be developed at key life stages. Clearly we feel that one of these should be a 'nudge' to consider retirement planning in the round. While something like this is available through Pension Wise for those considering accessing their pension wealth, we feel it is something which should be available to the wider population as a guidance (rather than advice) service.

Will these objectives focus the activities of the new money guidance body sufficiently to allow it to improve consumer outcomes?

The proposed objectives of the money guidance body are very broad, covering debt advice, money guidance and financial capability. The objectives should be specific and clear, otherwise the scope of the organisation could creep over time and the body become cost-ineffective. The body should be open and consultative as its remit and its understanding of its role develops.

Many of the proposals around the new money guidance body focus on filling gaps in provision, which is appropriate. The financial services industry's experience of the Money Advice Service means there are naturally doubts about how efficient the body will be, and questions why commissioning and funding debt advice, money guidance and financial capability services would be better done via the new body rather than directly between debt charities and the industry. Instead, a key role is likely to be the co-ordination of different bodies involved in financial education where this is not happening already, as this may be sufficient to kick-start provision in certain areas.

What role do you think the new money guidance body should have in providing research?

The new body should seek to commission research only where gaps are identified and a specific need exists for the research to be undertaken. Organisations who already provide research to and for the industry should be approached in the first instance as it may be possible for a simple broadening of remit with some financial support.

How should the new money guidance body seek to understand the gaps in the provision of money guidance?

The new body should approach identifying gaps in provisions via open consultation with those on the "front line" who already provide money guidance. These organisations are likely to have a good understanding of the types of services and support consumers who contact them need and which are highest in demand. This will make the process of prioritising key areas to address easier and likely to have the biggest immediate impact.

Identifying where there are capacity issues for those organisations already providing essential financial guidance services should be a priority before looking to introduce new services or initiatives.

It will be important for the new body to have a forward looking, proactive approach. To give an example we know that the changes to support for mortgage interest, currently a means tested benefit is changing from being a benefit to being a loan secured on the claimant's property, this will have an impact on a significant number of home owners. All of those affected will need guidance through the process, we are already concerned as to how this will be provided and who will deliver it. This is also likely to have an impact on the capacity of the debt advice sector, which is already under pressure. The new financial guidance body should be alive to issues such as this and in consultation with the industry consider how best it can support the sector to cope with an increase in demand.

Is the planned focus on local and digital financial capability raising projects the right one?

In MyBnk's recent report into Building Societies and financial education[1] it concluded that "building societies have a mandate and a sense of social responsibility to deliver financial education. They have a strong focus on benefitting their members and communities where they work." The report also identified that "Societies are in a unique position of being embedded within local communities across the UK, and their helping of these communities could be transformational. Linking education projects to savings and money management habits of customers in particular has great scope for development." A focus on giving back and making a difference to local communities aligns well with Building Societies approach and therefore we are supportive of the new public financial guidance model taking this approach.

We agree that there is an opportunity to help large numbers of people make effective decisions through digital tools and we would support work in this area. However, this should be after careful consideration and consultation with those organisations who already provide money guidance and also with consumer groups. A focus purely on digital solutions will likely exclude those most in need of support such as vulnerable consumers.

---

[1] http://mybnk.org/wp-content/uploads/2016/05/MyBnk-Report-BSA-Final-design-May-2016.pdf

What should be included in the partnership agreement between the two bodies, and how could hand-offs best be specified?

We agree that there is clear benefit to merging the pensions guidance services to make the offering clearer and simpler for consumers to access. However, as mentioned above we believe that there is an opportunity for this to be further streamlined by creating one new money guidance body that incorporates pensions guidance services, money guidance, financial capability projects and debt advice. So long as this new body has clearly defined objectives with strong leadership, one body will more effectively and efficiently be able to ensure that consumers receive high quality, holistic money and financial guidance.

There is a danger that two separate organisations, however closely the boards intend to work together, will still result in a fragmented and confusing experience for a consumer which will do little to improve the situation from the one that exists now.

Two bodies would need a more complex structure to support them including two separate boards and the requirement for each to develop their own strategies and policies to meet their statutory objectives. Whilst we appreciate that the intention is for a partnership agreement to be put in place to ensure strategies align and are complementary, it will be challenging for the two bodies to ensure that there is neither overlap or gaps in provision. In addition, funding two organisations will add unnecessary cost and divert resources away from where they could be better used.

The difficulty with providing public financial guidance is that for it to be effective and ensure that an individual is fully equipped and supported to make the best decision for them regarding their finances it needs to be holistic. To therefore consider a pension in isolation from the rest of a person's finances and vice versa to consider a pension without considering for example their future housing needs, or ensuring they have a sufficient emergency fund which is instant access, wouldn't lead to the best consumer outcome and would constitute poor guidance.

We know that increasingly retirement isn't a one off life event and has developed into a process that can take place over many years and in some cases span over decades, as people choose to reduce hours, work longer etc. It seems illogical that anyone would consider a pension in isolation from all other money and debt guidance as all other aspects of an individual's circumstances should be considered.

It would therefore seem a more pragmatic approach for one guidance body to have over-all responsibility for public financial guidance and within it incorporate the various elements which could still be segmented by department as appropriate.

Do you have any other comments on the proposed model?

Currently firms refer consumers to the Money Advice Service in a variety of documents, website links and brochures. The early communication of precisely when the Money Advice Service will change over to the new structure and cease to be a consumer facing organisation is key to minimising confusion for consumers as firms will need time to update their systems to reflect the change. It will also need to be made clear at the earliest possible stage who firms should be referring consumers to and how the process will work for consumers who are referred.

By Sarah Wilde
The Building Societies Association response to HM Treasury's consultation on public financial guidance
sarah.wilde@bsa.org.uk
02075205922

York House
23 Kingsway
London WC2B 6LU

020 7520 5900
@BSABuildingSocs
www.bsa.org.uk

BSA EU Transparancy Register No: 9: 24933110421-64

www.bsa.org.uk

The Building Societies Association (BSA) is the voice of the UK's building societies.

We fulfil two key roles. We provide our members with information to help them run their businesses. We also represent their interests to audiences including the Financial Conduct Authority, Prudential Regulation Authority and other regulators, the government and parliament, the Bank of England, the media and other opinion formers, and the general public.

Our members have total assets of over £330 billion, and account for approximately 20% of both the UK mortgage and savings markets