# Response to Consultation on Public financial guidance

Restricted
21 December 2015

Building Societies Association

# Introduction

The Building Societies Association (BSA) represents all 44 building societies and two credit unions. Our members have total assets of over £330 billion, and account for approximately 20% of both UK mortgage and savings balances. It's estimated that more than a third of the UK population has a financial service relationship with a building society.

As Money Advice Service levy payers building societies have a keen interest in the way that public financial guidance is provided. They are also key stakeholders in the financial capability agenda, as well as Pension Wise and The Pensions Advisory Service – to the extent that these services help to keep building society members in good financial health. We therefore welcome this opportunity to be able to respond to this consultation.

We have also responded to the joint FCA and HM Treasury Financial Advice Market Review (FAMR) and the two responses should be read in conjunction. Many building societies continue to offer financial advice even though the economics of doing so for many financial products have become marginal. As providers of financial advice retreat from the market, gaps will be left which can only be filled by a strong public financial guidance framework.

We note that FAMR is consulting on the exact definitions of what constitutes advice and what constitutes guidance. However, on a general note we will repeat here our belief that the Money Advice Service should be renamed the *Money Guidance Service* as this better reflects the organisation's role and would remove significant confusion.

It would be helpful to consider our recently published report on lending into retirement[1] alongside this response.

We have responded only to questions that the BSA or building societies have a particular view on.

### 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?

Some consumers will certainly have particular needs in terms of provision of financial advice due to vulnerabilities such as those related to age, health problems, mental health problems, lack of financial knowledge or confidence, lack of confidence in using technology, low literacy and numeracy capabilities and / or problems with using the English language.

An individual's particular vulnerability or combination of vulnerabilities will be unique to that person.

The need that public financial guidance providers will have to meet for these consumers is to be able to identify that they need additional help and come up with delivery of the guidance they need in a way that meets the individual's circumstances in terms of their particular vulnerabilities.

Providers will also have to consider the delicate balance between maintaining the consumer's privacy in their financial affairs against the benefits of involving friends or family in helping them reach decisions and to support attorneys and other appointed 3rd party representatives who seek financial guidance and take financial decisions on behalf of another person.

[1] https://www.bsa.org.uk/information/publications/industry-publications/lending-into-retirement

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

Since 2014, all debt advice agencies have required FCA authorisation, we are supportive of this move and believe it has driven improvements in the industry and helped to raise standards. We do however feel that there is a danger of a dual system of regulation developing, for example the quality frameworks and accredited codes and standards introduced by MAS in addition to FCA regulation have the potential to add unnecessary regulatory burdens for organisations. MAS will need to work very closely with the FCA and industry to avoid duplication of work, or worse the risk of not being fully aligned in this area, as this will result in significant cost in terms of time and expense for industry.

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

It is our contention that it would be fairer to apportion costs for debt across other sectors in addition to financial services on the basis of "polluter pays" rather than total lending. With appropriate sector level agreements the cost of collecting such levies should not be substantial. Such an approach would also mitigate the real potential that financial firms, presented with substantial compulsory debt advice costs, have to scale back their discretionary support for debt advice agencies such as Citizens Advice and the Money Advice Trust.

The Money Advice Trust has identified a shift in debt types[2] with the number of callers to National Debtline reporting debts owed on other items such as water rates, gas/electricity, rent, council tax, telephone bills, and catalogue purchases, having increased significantly both in real and proportionate terms. The burden of financing debt advice should be shared by those firms that will benefit from the provision of free debt advice. We strongly believe that there is a need for all sectors to be engaged in supporting this advice in a meaningful way.

The demand for free to client debt advice looks set to increase, with existing provision nearly at capacity, this needs to be considered as a matter of priority.

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

In our response to FAMR we note that retirement planning in general, which includes pensions, is a particular pinch point in many consumers' lives. Many older people have a complex web of income streams and assets, generally more so than those in other age groups. These might include a salary, pension income, their home, investments, property income and other asset wealth.

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. 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. Deciding which option to take is a complex decision which the customer cannot be best advised on solely by receiving mortgage advice.

---

2 http://www.moneyadvicetrust.org/SiteCollectionDocuments/Research%20and%20reports/changing_household_budgets_report_final.pdf

In many instances a person's housing wealth may dwarf their pension wealth and be a better option for realising a retirement income. A 'holistic advice' framework which considers a person's retirement planning in the round would be ideal. However, there are a number of practical issues. Only very few financial advisors are broadly trained in mortgages, pensions and other products such as equity release. Further, the advice they provide is likely to be very expensive. It may also be the case that even given the option, some customers would not value such advice. They may have researched their options themselves and decided the route they wish to take, even if a better option could be found through a more thorough advice process.

Instead it appears that in the first instance the focus should be on guidance – which tends to be cheaper to provides a range of channels through which the customer can access it. Other organisations have, for example, suggested that property wealth should be considered within 'Pension Wise' guidance so that customers are at least aware that accessing housing equity could be a better option than accessing their pension. We understand that the statutory underpinning for Pension Wise in FSMA may currently preclude this option but would urge the Government to consider it.

As a next step we would urge the Government to consider one of the recommendations from our recent report on *Lending into Retirement.* We note there that all of the different considerations a consumer may have when considering retirement planning are in fact spread across a range of Government departments:

- Pensions and equity release– DWP
- Social care funding – Department of Health
- Mortgages and other financial policy – Treasury
- Housing policy – DCLG
- Taxes – HMRC

We are very aware that Pension Wise was constituted specifically to educate the public about pension freedoms. However, as these reforms bed-in, the Government may consider re-tasking it as a *Retirement Wise* service. Preparatory work could be put in place by Government setting up a cross-departmental taskforce with the above ministries to consider how a joined up policy framework would operate in practice.

While a *Retirement Wise* service would be even more complex for customers to navigate than the current Pension Wise service we believe this is as a result of the underlying complexity of decisions needing to be taken and cannot be avoided entirely. However, as with FAMR, we argue that greater use of decision trees and algorithms that lead to consumer outcomes which are not unsuitable (in, say, 90% of cases) should be acceptable to government and the regulator. These would help to guide consumers through the service and remove some of this complexity.

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

We believe that the primary objective of MAS should be to coordinate the provision of debt advice and financial guidance.

In our view MAS will have the most impact as an overarching body coordinating debt advice solutions and identifying where there may be gaps in provision. This was of course one of the key recommendations from the independent review by Christine Farnish earlier this year, a report we are broadly supportive of but are yet to see a formal response to from MAS.

Where gaps are identified MAS should not be seeking to provide a solution themselves but instead focus on working with the industry to develop appropriate solutions.

MAS should be a radar for the industry, horizon scanning to identify problems that could develop in the future and through groups such as the recently established cross sector debt advice operational group, facilitate discussions across industry to ensure that the UK debt industry is in a strong position to support UK consumers now and in the future.

We agree with the objective of enhancing the understanding and knowledge of members of the public in financial matters and the ability of the public to manage their own financial affairs. This should however be in a supporting and collaborative capacity.

There is already some great work going on to support UK consumers – for example we know some of our members run debt guidance workshops. One lender provided specifically targeted guidance to those in the local steel industry that had recently lost their jobs. The workshops were open to both members and the general community and included budget planning.

Other initiatives include a joint consumer leaflet between BSA members and the Money Advice Trust called "Can't pay your mortgage? Help is at hand". A reassuring guide to encourage consumers to seek help early.

MAS should be supportive of the relationships and initiatives that already exist and look to share these best practices across the industry.

MAS should be the gateway for consumers to use, signposting them to the help they need. In the past MAS have attempted to act as both a governing body and provider of debt advice solutions – when in fact it shouldn't be either of these things.

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

MAS should have a clear picture of the level of demand and need for debt services and financial education and be aware of the capacity of existing provision. There seems little value in MAS identifying more people who are in need of financial guidance before having a clear understanding of whether the industry has the capacity to deliver solutions to meet these needs. Where there are capacity issues MAS should be quantifying these and ensuring funding is delivered where it will make the most difference.

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

Financial services organisations already invest a significant amount of resources into delivering financial capability outputs of different kinds – face-to-face education, educational materials for teachers, schools and communities. Work is underway with MAS to ensure that financial services organisations meet or exceed the MAS standards. Where a financial services organisation is directly delivering financial capability outputs that meet MAS standards, there is a clear benefit in that MAS does not need to additionally fund such provision. Financial services organisations reporting their work in this area could help in this rationalisation of the delivery of such programmes, ensuring that they are targeted and effective, in the same way that the sector expects MAS to deliver its projects.

### 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?

Our response to Q5 above outlines how the government could take the first steps towards offering integrated public financial guidance to people approaching retirement. As with our response to FAMR we believe there is a need to consider the full spectrum of lifestages, recognising that needs differ. In segmenting the market, it will be at least as instructive to consider individuals' net asset levels as to consider their age.

The Financial Conduct Authority has done work on a Consumer Spotlight segmentation model which building societies have told us is potentially very useful. The Government could seek to base provision of financial guidance on that model.

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

These are the correct core services for statutory providers to deliver, at a minimum. Our only suggestion would be for Government to consider how a *Retirement Wise* service could be established once the pension guidance guarantee has been discharged.

### 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 would recommend adding 'transparent'. It is vital that the government is clear on what objectives it wants to achieve through the provision of core public financial guidance services. Each core service should therefore be underpinned by a clear and measurable set of success criteria, which should be disclosed and monitored not only by their own boards but also all financial services levy payers and key stakeholders.

We feel that this transparency is important to ensure that levy funding is being spent efficiently, and that the best outcomes for consumers are being achieved.

Charlie Blagbrough
Mortgage Policy Officer
charlie.blagbrough@bsa.org.uk
020 7067 1076

York House
23 Kingsway
London WC2B 6LU

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

BSA EU Transparancy Register No: 9: 24933110421-64