Knowledge to Action:

A CII special report on the new Consumer Financial Education Body

CII

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Foreword

“The great end of life is not knowledge but action.” So wrote Thomas H. Huxley, the pioneering Victorian biologist and educator. Writing in 1863 about the importance of applying education to life, his words are also a fitting summary of the situation confronting today’s consumers of financial services.

Faced with the knowledge of unsustainable finances, consumers are uncertain of what action they should take. Personal debt is at an all time high. Trust in the financial services industry at an all time low. Nearly half of consumers say they do not understand financial products. Nearly two-thirds rely on family and friends to advise them on their money.

“Knowledge to action” also encapsulates the challenge for financial capability. The Government has formed a new Consumer Financial Education Body (CFEB) with a remit to take forward various financial capability initiatives such as financial literacy and national Money Guidance. The body will draw on knowledge including the FSA Baseline Survey and the promising results from the Money Guidance Pathfinder. But its role will be to turn this into action with an approach that is independent of both the FSA, consumer groups and the industry.

The CII has long supported the national financial capability agenda, and we believe that the CFEB’s forming provides an ideal opportunity to reinvigorate thinking in this crucial area. We have provided expertise and training for the money guidance pathfinder, not to mention our pro bono advice initiative in cooperation with Citizens Advice that has been running since 2005. Because the CEFB is being introduced at a time of serious financial constraint for firms and the economy, its leadership must ensure it is efficient, fit and lean if its funding is not to become a source of controversy.

Will this new body herald a new dawn for financial capability efforts in the UK? Or will it just mean more bureaucracy? In this special report, we bring together the views of various stakeholders on the challenges ahead for this new body – both positive and critical. Whatever its work priorities over the coming months will be, the body must focus on enhancing mass market financial literacy as a better informed public is a fundamental prerequisite for a trusted and confident sector.

Dr Alexander Scott
Chief Executive
The Chartered Insurance Institute

April 2010

The FSA Director's view

Chris Pond, Director, FSA Financial Capability Department

With unprecedently high levels of household debt, low levels of saving and in the midst of the most turbulent economic period in recent history, the establishment of the new Consumer Financial Education Body to raise the level and profile of financial capability activity across the UK cannot be more timely. Financed by the financial services industry, the body would be tasked to take the lead on the UK's national strategy on financial capability by coordinating and orchestrating the efforts of government, the third sector and the industry itself, ensuring the greatest impact and effectiveness. The new body will also become a 'centre of expertise' through which the best ideas in financial capability initiatives can be shared and disseminated, stimulating research and promoting robust evaluation.

In practical terms, one of the first orders of business for CFEB will be to continue to roll-out the money guidance service that was launched by the Chancellor recently, following the successful Pathfinders in the North east and North West of England. The new service aims to reach a million people in its first year.

From a strategic perspective, the launch of a body championing financial education provides the opportunity both to take a fresh look at the national strategy for financial capability, refreshing and reprioritising where appropriate, and ensuring that it is fit for purpose to help the public through these difficult times. By the end of next year, the national strategy will have succeeded its target of reaching 10 million people through its various programmes. Added to the many other programmes operating in the public, private and third sector and this should reach deep into the consumer market. However, the resources committed by the industry to marketing its products overshadows by a wide margin the amount devoted to financial education. Given the resources available, there is a limit to the amount of marketing spend available for TV and radio, which generates the greatest reach, but social networking and media will increasingly help to reach large numbers at relatively low cost and the internet, now used widely for money guidance, can also help to reach a wider audience.

> **"Experience through the FSA's work shows that the most effective means of building trust and confidence is through intermediaries – midwives and teachers, youth workers, those working in the third sector – and that word of mouth recommendation has the greatest impact on people's willingness to use a service."**

Many have argued that it will be a generation before efforts to address financial education provide results. Certainly, shifting the tectonic plates of a nation's financial capability is a matter of generational change. But there is much that can be achieved in the short term through targeted programmes. The interim evaluation of the Money Guidance Pathfinder suggests that it is having a real impact on people's behaviour. The same is true for the Parents Guide to Money and the workplace programme. The challenge is to ensure that these changes in behaviour become sustainable, becoming part of people's everyday way of life. Just as bad habits can be learned, so can good habits – whether budgeting, keeping track of finances, shopping around or putting something aside for a rainy day.

The potential for future development in this field is huge. We need to engage the industry itself in promoting financial education, from which it stands to benefit as much as consumers. Government too should more effectively embed financial capability into its various programmes. And the third sector could also make a much greater contribution in accessing the hardest to reach groups. But all this will need careful coordination and orchestration, which is a role that the new Consumer Financial Education Body could usefully perform.

A Critical view

Viscount Eccles, CBE: The House of Lords

I am opposed to the creation of the Consumer Financial Education Body.

We can speculate on what has persuaded the Government to drop the FSA's public awareness duty, and to substitute that at much greater length and expense the arrangements for a new body. It may just be that the Government considers that awareness is not enough, and instead we need the seriousness of education, which seems unlikely. It may be that the FSA has said that its awareness effort has been small but without more delegated authority, money and staff it can do no more about it, and that if we want education.

> **"The switch from awareness to education needs justification. The banking and credit crisis showed that it was not only the public who lacked awareness, but those in charge in the highest places as well."**

It remains true that members of the public are capable of imparting more awareness than was or ever could have been delivered by the FSA. Indeed, who operating from within the financial system was fully aware, or is aware today, dare I say it? What has been illustrated here is the mistake of legislating to give a duty to a public body which it cannot perform, and the reluctance of that body to say so.

We then move to the next fallacy, which is that it was not the policy but the chosen method of implementation that was wrong, and that it was not sufficiently rigorous and the resources put into it were inadequate. How can the Government and their agencies expect to compete in the matter of financial awareness and education with all those whose livelihood depends on that? Surely it would be better to leave these matters alone securely in private hands.

Whatever history's full evaluation of our understanding of the financial system turns out to be, we need to be cautious when we claim a high degree of knowledge and certainty about it today. Nevertheless, there is to be this new, expensive and curiously funded body. Given its title, we are left to speculate on the switch from the public as a whole in the 2000 Act to consumers only in this legislation.

What is also surprising is the decision to create yet another body with a chair, a chief executive and a board. There will also be a practitioner panel and a consumer panel. The body is bound to be bureaucratic and therefore expensive. That is the price paid for public accountability. This creation of yet another public body is evidence of the residual fly-wheel effect, whereby this Government cannot resist committing ever more resources to the public sector when we all agree that it is only growth driven by the private sector that can return our finances to long-term health.

Resolution Foundation view

Clive Cowdery, Chairman, Resolution Foundation

The Foundation identified that low earners fell into an advice gap in 2005, with commercial advisers focused on those better off, and the government and charities focused on the most vulnerable. We proposed that a new national financial advice service be established and this work led to the Thoresen Review and Money Guidance was born. The Foundation welcomes the establishment of the new Consumer Financial Education Body to run Money Guidance. Our early research stated that Money Guidance should sit independently of the FSA so that it is able to focus solely on meeting the needs of the consumer. The new body will act as a means to increase the profile of Money Guidance and the wider financial capability agenda.

> **“Initiatives such as Money Guidance and financial education will help to create more savvy consumers, able to make sounder financial decisions.”**

Our research found that a low earner in receipt of money guidance could be £60,000 better off by the age of 60 by making sounder financial decisions throughout their life. It could also save the UK £100 million in the first 10 years as people made better financial decisions and moved off some benefits, such as pension credit. We also found evidence of the demand for such a service in recent polling which showed a strong desire for a trusted and independent advice service:

- in 2007, 45% of respondents said that they would go to a bank and building society for financial advice compared to only 29% in 2009
- in 2007, 32% of respondents said that they would use an Independent Financial Adviser as a source of advice compared to only 20% in 2009

The Resolution Foundation has always supported a joined-up approach to financial health and believes that a national Money Guidance service will play an important role in moving people away from crisis situations requiring remedial help to primary help ‘before they miss their first payment.’ This in turn will help move towards more preventative approaches with financial education.

We look forward to the imminent roll out of Money Guidance now that the Financial Services Bill has received Royal Assent.

The Consumer Group view

Peter Vicary-Smith, Chief Executive, Which?

"It is almost universally accepted these days that we need to take action to address UK consumers' low levels of financial capability. The creation of the Consumer Financial Education Body marks a major milestone on this road, and should be welcomed by both consumer groups and the industry."

While finance education has an important role to play, education has a slow burning effect so Which? has for a long time advocated the need for a generic financial advice system (or National Financial Advice Network as we called it). The creation of CFEB marks the first step in achieving this aim, and we are looking forward to engaging with the body to ensure it delivers the best possible outcomes for consumers.

It is clear that CFEB will face a number of challenges from the outset. There are still unresolved questions about the new money guidance service – for example whether it can be effective without crossing into the regulated sector of advice, whether it will be delivered in commercial settings, and how it will be branded. Furthermore there will be considerable pressure for the body to prove the work it does achieves results, so it will need to set out how it plans to measure the impact of both its education and money guidance work at the very outset.

In order to meet the challenges it faces, it is vital to ensure that CFEB has the necessary resources, independence and focus. Which? is seeking reassurances that its objectives will not be skewed in order to secure its privately sourced funding, that it should not suffer from a lack of focus which might be engineered by creating too wide a scope of responsibilities for it to perform, and that it has sufficient independence to develop its own strategic plan and act without undue constraints. We need to ensure it is equipped for the task ahead.

While we warmly welcome CFEB and the role it will play in improving financial capability I would end with a word of caution. Financial capability and education can only go so far in improving consumer outcomes and work taken in this area should never be seen as a replacement for proper, fit-for-purpose, conduct of business regulation. Instead, it should be seen as acting in tandem with the regulatory regime to deliver a future where consumers are better equipped to engage with the financial services industry.

The Consumer Group view

Adam Phillips, Chairman, Financial Services Consumer Panel

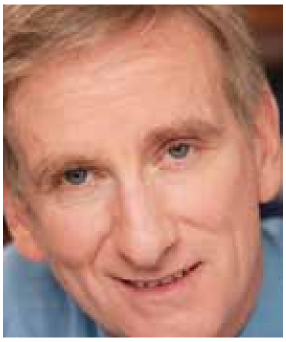
The generic money guidance service which the Consumer Financial Education Body (CFEB) will provide is an essential service to help transform the culture of spending and saving in this country. We are moving to a world where people will not be able to depend on the state to provide anything more than the most basic of safety nets for old age and ill-health. It is essential that people with anything more than minimum income take steps to protect themselves with insurance and to save for old-age.

The continuing demise of defined benefit pension schemes, the launch of NEST's and the changes in the advice landscape that will be introduced by the retail distribution review, will raise awareness of these issues and stimulate questions in people's minds. This questioning will create a demand for information. If the information provided is to be effective in changing behaviour, it cannot be delivered solely through publicity and mass advertising campaigns, it needs to be directed at the individual and relevant to their personal circumstances.

Financial capability is not something that can only be taught at school, since many of the issues only become relevant as people grow up and start earning. Also, advice and education are difficult and expensive for the industry to provide to people who are not already closely engaged with the savings and protection industry, given the low levels of trust at present among many of those who most need to save and protect themselves. The work that has been done with the money guidance pathfinders and Moneymadeclear has demonstrated that providing information in the way proposed for the CFEB is appreciated by the recipients, provides helpful advice and reassurance and is effective in changing behaviour in the relatively short term. Assuming the industry is able to deliver products and services which people need at prices which are good value, confidence and ultimately trust can be rebuilt.

> **"The important elements for the CFEB to focus on are the need to get across some very simple messages about protection and savings, along the lines of the "five portions of fruit and vegetables per day" message from the other FSA, and to encourage specific and relevant short term behaviour change at the individual level."**

If the CFEB can do this we will be on the way to re-establishing a savings culture, generating additional revenue for the industry and hopefully rebuilding trust in the service the retail financial services industry provides to the community.



The Consumer Advocate's view

John Howard, former Chairman, Financial Services Consumer Panel

There has never been a more important time to understand and take action on personal finances than now. With consumer debt at 1.4 trillion pounds, millions of people with inadequate savings and worldwide financial uncertainty, the new Consumer Financial Education Body will arrive in the nick of time.

But it will first have to carve out a position of trust in the financial landscape. Its efforts to improve the understanding of finance through our education system, although important, will take time to filter through. And whereas an understanding of budgeting and saving and how credit can be used safely, is important for young people, of more immediate impact will be the Money Guidance Service. Available on a high street near you, it will provide basic information about the most common products and update consumers' understanding of the system. However to win the trust of consumers the Money Guidance Service must, from the outset, demonstrate that it is impartial and independent.

> **"The advent of Money Guidance has been treated with anger by some in the industry. News that it would be paid for by industry levy has drawn cries of, 'why should we pay for it?'"**

But I have always seen the service as being the gateway for many consumers to enter financial services for the first time, increasing the business of advisors and providers, so the levy is a sort of referral fee.

Many people don't engage with financial services because what they don't understand they tend to mistrust, it's a basic fear of the unknown. The industry hasn't helped here by making too many products over complicated and incomprehensible. Money guidance will be able to give consumers a basic understanding of products like mortgages, pensions and savings accounts and start to give them confidence to use the system. Another important part of its role will be to explain how our rather complicated system of advice and information works, so that they can hand on consumers to IFAs or banks for advice about specific products.

For too long the financial services industry has been preaching to the converted, that sector of society with the money and knowledge to take advantage of what the market has to offer. I think the new Consumer Financial Education Body has the potential to increase significantly the number of people who can use the market to their advantage, and not a moment too soon.

The Building Society's view

Adrian Coles, Chief Executive, Building Societies Association

Like many trade bodies the BSA supports the creation of the new Consumer Financial Education Body; its separation from the FSA clearly underlines the importance of consumer education as a stand alone subject, distinct from the FSA's other responsibilities. Furthermore, the creation of a stand-alone entity, rather than just a department within a regulator, will highlight both the transparency of, and accountability for, the processes and (considerable) resources used to promote the education agenda.

> **"Establishing the performance indicators and measuring the performance of the new body will be difficult, especially in the short-term, as this is intrinsically a long term project, with returns emerging over decades."**

It will be important for the new body to build-in effective cost-benefit procedures, as those funding the new body that are active in the mortgage and deposit markets(and many others) emerge from a period of extremely difficult conditions, and will be resistant to any sign of profligacy in the new agency's own systems of money management. The new agency must also be able to work with existing initiatives undertaken by financial institutions, and must not give any grounds to institutions to conclude that they can afford to run down their own programmes because they are now forced to provide funds to the new agency.

The industry and government need to play their role; financial capability should not mean consumers having to learn the finance sector's jargon. It should equally mean financial institutions learning to promote simple products, explained in plain English, against a background of a stable, predictable and understandable tax system which does not contain perverse incentives. An absence of these would mean that the new agency would struggle to meet its objectives. Having said that the Money Made Clear leaflets and website offer clear and helpful information which the new agency would do well to maintain or emulate.

Overall, the establishment of the new agency will be a time of tremendous opportunity for those connected with the financial education agenda in the UK.

The Banker's view

Eric Leenders, British Bankers Association

We believe the CFEB has the opportunity to increase consumers' engagement with financial services, improve financial literacy levels and boost consumer confidence in the industry. We are delighted the body has been formed and look forward to working together.

The CFEB faces a number of challenges. We have three primary recommendations which we think will help facilitate effective results and enhance consumer confidence:

First, there should be a holistic review of the financial education initiatives currently in place. At present there is a plethora of publicly funded bodies, third sector organisations and charities, all commissioned with improving financial education in the UK. A comprehensive review would help avoid unnecessary overlap and confusion. The CFEB can then identify any gaps and ensure all organisations' goals are aligned so that everyone works together effectively and achieves tangible results.

Second, there should be a clear focus on working to provide consumers with the education they need to take responsibility for their finances and financial decisions. Well-informed, financially capable consumers are in a stronger position to engage effectively with the financial services industry. The CFEB should work to encourage consumers to read terms and conditions, ask questions and compare products to ensure they choose the right product/service for them.

Third, proper evaluation of all the CFEB's projects – e.g. the national roll-out of moneymadeclear – at regular intervals is essential. This will ensure that all initiatives are as effective as possible and will enable the CFEB to make targets and evaluate the progress of the many initiatives underway.

> **“The financial services industry fully supports the increasing prominence given to improving financial capability in the UK and is strongly committed to assisting and enabling financial education initiatives.”**

We understand that the CFEB faces many challenges – and hope we will have many opportunities to work with the body as it grows and progresses.

The Independent Financial Adviser's view

Robert Reid, Director, Syndaxi Financial Planning

The new body has a massive task and if it is to succeed it must take a different approach from the current strategy deployed by the FSA. Consumer Financial Education is the "Elephant in the room" and needs to be tackled systematically and progressively. In other words to eat an elephant it needs to be broken up first, as eating in one go is just not possible, far less sensible.

Expanding current initiatives is not the way forward; the Money Guidance project has illustrated just how hard it is to engage those we seek to help. A TV advert aired during Coronation Street generated just one enquiry. This shows that engagement is not about making assistance visible it needs to be focussed on making it worth the public's while.

In the PFS/Citizens Advice Moneyplan project, in the main, the enquirers have an issue they need immediate help with. Some are straight forward some are complex. What we don't get is approaches from people with their focus on prevention.

The Treasury must play its part to make it easier to move between contracts i.e. Pension to ISA and vice versa (albeit with tax relief clawed back or added as appropriate). A recent ABI paper suggested the ability of couples to pool their pension plans. This was for me, a real paradigm shift in that it recognised that small changes could make a major impact.

> **"We need to make it financially beneficial to be smart with money. Encouraging saving is the ultimate objective but we need to reward this "loyalty" for taking action; whether that is learning or saving."**

Attending work-based or in groups locally should qualify attendees for additional tax allowances and introducing matching savings (with the government providing the matching contribution) even for a limited period, would I believe greatly encourage people to save.

Complexity itself is not the barrier. If it was, then nobody in the target group would have mastered their sophisticated computer games or mobile phones. We have to make being money smart COOL. To do this we need to engage the target group in different ways and not assume that the web is the solution to everything.

Education in groups would greatly encourage people to become better with money. However, it being more socially driven and with the benefit which comes from the support of their peers.

Professional Advisers – in particular the Chartered Financial Planners, should be forced to either take part in pro bono or make a donation in lieu. Recognition of their title carries with it a social responsibility and that should not be dismissed lightly

Changing the logo is not enough as James Clavell said in his novel Shogun "It's all so simple, Anjin-san. Just change your concept of the world."

We will make no progress unless we change our fundamental approach. This change in structure is an opportunity we should not miss. Let us use it as a catalyst and not as an excuse to continue down the wrong path.

This is not a time for egos. This is a time for working in partnership.

The Consultancy view

Iain Anderson, Cicero Consulting

What's in a name?

With the outcome of the coming General Election increasingly uncertain, you might think the planned Consumer Financial Education Body might have a very short life – but somehow I don't think so.

> **"All three main political parties are signed up to this initiative. There have been many elements of the Financial Services Bill which have attracted considerable controversy, but the CFEB seems to have attracted a strong consensus."**

And you can see why. With Government facing a significant drop in corporation taxes from financial services and election manifestos which are set to encourage everyone to do more to make their own financial provision, policymakers are more focused than ever on [re] establishing trust and confidence in the sector.

The key thing will be to ensure that CFEB is not perceived as just another 'quango' – for a bonfire of the quangos must be in the offing – regardless of who wins the election. It will be important that the new body gets some quick wins AND is able to show a measurable improvement in financial capability outcomes. While this takes time – in the early days the new body must be seen to focus on delivery and not on creating a gigantic infrastructure.

Delivery on the ground will be more important than desk jobs!

To deliver mass market trust and confidence the new body will need to ensure it can reach both workplace and educational institutions with timely and relevant materials. It will also need to ensure consumer awareness from an early stage. As the industry is paying the bill – the industry itself should maximise its return on investment by making consumers aware of the new body through its own chancels.

Of course the Conservatives plan to scrap the FSA and their planned Consumer Protection Agency would be likely to swallow up the CFEB. While there would be cost synergies for those who are paying the bill, it will be important to ensure that within a larger entity, focus remains on financial capability.

One thing is certain – the CFEB or Consumer Protection Agency is likely to have a baptism of fire!